Shamil Bosphorus Modaraba ("SBM")
Investment Report – December 2010

This Investment Report is part of Ithmaar Banks' client communication initiative.
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SBM's Investments ("Underlying Assets")

Ithmaar Bank B.S.C. (the "Modareb") has invested SBM's capital in four well-diversified real estate development projects that meet the requirements of SBM's investment objective. The projects have been undertaken by Special Purpose Vehicles ("SPVs") established for each project. Updates on each underlying asset are given hereinafter.

Turkish Economy

The Turkish Economy finished 2010 with GDP of 7.3%, the strongest in Europe and one of the strongest among emerging market economies. Thus the Turkish economy is exhibiting a traditional V shaped economic recovery and has virtually recouped all output losses experienced in its sharp downturn during recent economic crisis. Turkey did not experience foreign exchange difficulties or problems within its banking sector during the crisis period. This can be attributed to a combination of strict reforms in the banking sector put in place since its banking crisis in 2000-2001, effective prudential supervision of the banking sector by the Turkish Central Bank, continued structural reform and responsible fiscal policy on the part of the government. Not only has economic growth in 2010 been impressive but also the year ended with the consumer price index (CPI) at 6.4% even lower level compared to the official target of 6.5% and the lowest in recent history. The unemployment rate in October (the last reporting date) was 11.2% down from 13% a year earlier while nonagricultural unemployment rate decreased to 14.1% from last year's 16.4%. This sharp recovery has come on the back of strong domestic demand. Turkish households exhibit relatively low debt and high savings rates. The currency has remained strong and in the external accounts capital inflows have offset a growing current account deficit while the robust economic growth, stable currency and an aggressive privatization agenda bode well for FDI flows in 2011. All of this is truly good news for the Turkish real estate market.

2011 is an election year in Turkey. However, the ruling AKP appears almost certain to retain a majority and continue to govern. Given its responsible management of the economy of the past six years, this is a positive sign for the Turkish economy for the future. Most analysts expect Turkey to attain its long sought goal of an investment grade sovereign risk credit rating after the elections in June of 2011.

Real Estate in Turkey

General: The real estate market experienced a sharp upswing beginning in the first half of 2010 and accelerated in the second half of the year on the back of strong overall economic growth, growth in domestic demand, falling interest rates and rising employment. Consumer mortgage rates decreased to an unprecedented 0.75% per month (9% per annum). Mortgage lending has accelerated to such an extent that the IMF urged the Turkish government to tighten the rules of mortgage lending to remove some anomalies in the market. The Turkish government has responded by limiting mortgage loans to 75% of the value of residential properties and 50% of the value of commercial properties.

Office Space: On the back of the recovery from the economic crisis, tenant demand has increased after two years of dormant activity. A number of multinational corporations have reactivated their activities, which were for the most part postponed immediately after the crisis. Mainly corporations engaged in the financial, technology, fast-moving consumer goods and services sectors are active in securing their new contracts. Rent-wise it remains a tenants market. The average vacancy rate in the Istanbul office market as a whole is estimated by Colliers International to be 10.3% for Class A and 9% for Class B properties.

Retail Market: In the first half of 2010, the retail market showed signs that the low point has passed and a period of recovery has begun. Among the emerging markets, Turkey has fared relatively better during the global economic crisis and the current mood of the market is optimistic. In 2009, as a response to the crisis, many landlords took action to ensure that tenants kept their contracts. These measures included fixing the exchange rate and decreasing rental rates for many shopping centers. It appears that these incentives are no longer necessary during the current period of recovery, which started in the first half of 2010. Many shopping centers, especially new ones, that had experienced problems with occupancy rates, witnessed an upswing in demand on the back of the new optimism in the sector. The President of Shopping Centers and Retailers Association recently announced that the sector is expected to grow by almost 8% in 2011, outperforming 2010. In addition, it has plans to open 57 new shopping centers in 2011 with a gross rentable area of 1.7 mn m^2. With these new shopping centers and planned projects, it is estimated that the number of total shopping centers will reach 327 in 2012.

Residential Market: Demand for residential units in close-in urban areas of Istanbul was sustained during the crisis period up to mid-2010 while it slowed considerably in suburban regions. Demand for residential projects targeting high income groups in the city centers and close to central business district remained strong. Reflecting strong pent-up demand, growth overall in the Istanbul market was accelerated in the second half of 2010 and is projected to remain strong in 2011.

Valuation of the SBM

According to the Private Placement Memorandum of the SBM, the valuations of the underlying assets of the SBM are performed at the end of each year throughout the Modaraba term. Based on the valuations; the total value of the SBM as on 31 December 2010 is USD 106,181,968 (excluding any fees and expenses) as detailed in the table below:

Details	Valuation	
	USD	%
Underlying Assets:		
1. Autopia Auto Shopping Center (Beylikduzu) (Istanbul - European Side)	37,689,258	89%
2. Istinye Luxury Villas (Istanbul - European Side)	7,568,000	165%
3. Orhanli Budget Housing (Istanbul - Asian Side)	3,495,000	58%
4. Belek Golf Resort and Holiday Homes (Antalya – Southern Turkey)	53,074,855	194%
Others:		
• Contingency (funds invested in profit generating account)	1,557,000	100%
• Accounts Receivables (Morabaha Facilities Provided to SPVs)	2,797,855	112%
Total SBM Valuation	**106,181,968**	**118%**

It is to be noted that the valuations of the projects are based on the highest and best use functions of the subject property of each project. As such, these values are only expected to be achieved at full maturity of the projects. However, since the projects require additional 3 to 8 years for completion, the Modareb cannot guarantee achieving the above values in case of any early exits from the projects.

Furthermore, the valuations of the SBM's underlying assets such as Istinye and Belek projects show an increase over their book value. However, please note that as the prices in markets continue to fluctuate, the market values can be expected to vary in the future. The future market fluctuations could result in either an increase or decrease in the market value of the SBM's four underlying assets.

SBM Projects' Updates

1. Autopia Auto Shopping Center
SPV: Beylikduzu Insaat Emlak ve Ticaret ("Beylikduzu")

Project Description

Autopia Auto Shopping Center ("Autopia") will be the largest auto shopping center in Turkey and Europe, with approximately 470 showrooms/stores being constructed on a total built-up area of 170,651 m^2. Autopia will consist of auto showrooms, auto spare parts and accessories shops, authorized auto services, insurance companies, auto dealers, banks, an auction room, food court and parking areas. Besides classical, antique, private auto exhibitions and collections; motorcycles, bicycles, sea vehicles, battery cars, model and real airplanes exhibitions will also take place in Autopia. Moreover, a driving track for auto testing will be built over the roof of this shopping center.

Autopia is the largest project of its kind in Europe and is an innovative concept in Turkey promoted by a law forcing all open auto sales lots in the urban areas of Istanbul to be closed and moved to suburban areas.

Project Updates

The construction permit for Autopia Auto Shopping Center was obtained in April 2010. The construction is well underway and is expected to be completed by December 2011. The project is on schedule and in compliance with the highest quality standards.

The prime developer of the project is Kelesoglu-Gul Insaat ("Kelesoglu") with whom Beylikduzu has exchanged the land in return for 35% of the revenues. Kelesoglu has employed a first rate project management and marketing team. Due to the heavy marketing campaigns of the project, the project has become extremely well known in Turkey, as well as in the international markets. The project has received much attention in the international press. Journalists and architectural specialists from all over the world have visited the site. During November, the project earned two prestigious international architectural awards names "European Commercial Property Awards".

The sales have been slow particularly given the fact that there has been strong buyer interest in the project. The major problem according to Autopia management has been the unwillingness of the Turkish banks to begin providing mortgage financing until the project is 75% completed. This is a common rule for commercial projects in Turkey. Autopia is projected to reach this stage in Q2 2011. Out of the 116,900 m^2 sellable area, a total of 15,434 m^2 has been sold to date; represented in 73 units with total revenue of approximately USD 25 million. However, the sales contracts have been based on flexible payment terms.

Beylikduzu has received a proposal from one the key partners of Kelesoglu to purchase 14,000 m^2 for USD 1,400 per m^2. The proposal is under negotiation, however if approved, Beylikduzu would utilize the funds to settle its financial debt due in July. The offer would also be an attractive option because 25% of the space would be seen to have been sold, which would provide impetus for further sales. Also, we believe that the proposed block sale would encourage one or more banks to set up special programs for lending to Autopia allowing sales to accelerate on the remaining units.

2. Istinye Luxury Villas Project
SPV: Bektu Insaat Emlak ve Ticaret ("Bektu")

Project Description

The project consists of proposed luxury villa development on a prime development site of 10,721 m^2 in Istinye, one of the most prestigious and expensive residential areas on the European side of Istanbul, on a hill overlooking the Bosphorus. Each villa will enjoy a commanding Bosphorus view. The land is in the vicinity of the Istanbul Stock Exchange, the American Consulate and Istinye Park, Istanbul's most exclusive shopping center.

Project Updates

As reported in our previous Investment Report, a court hearing was scheduled for December 2010. This however was also postponed by the court. Accordingly, based on the alternative solution advised earlier, Bektu went ahead with the appointment of a top real estate lawyer in Turkey. Based on their new strategy, the court would be forced to appoint a trustee to determine the ownership and divide the land, or put the land up for auction. However, this course of action is expected to go beyond the original exit date of the SBM; by end 2012. However, alternative exit strategies are being discussed with our Turkish Partners.

3. **Orhanli Budget Housing Project**
SPV: Orhanli Insaat Emlak ve Ticaret ("Orhanli")

Project Description

The project is a gated community consisting of 159 residential units in 11 residential blocks with 1 to 3 bedrooms per residential unit on the Asian side of Istanbul on a land area of 28,077 m^2. The residential units vary in size between 34 m^2 and 107 m^2. The community contains a social center, community pool and recreation area.

Project Updates

As of end December 2010, 107 units out of 159 units have been sold. This brings the total percentage of units sold to 67.3%. Despite of this project being a middle-income project in a suburban area of Istanbul, it was severely affected by the crisis. In 2008, the sales dropped from 48 units to 14 units in 2009; recovering to 44 units in 2010. However, the decrease of 20-30% in the sale prices did not recover in 2010. Accordingly, the remaining units are expected to be sold by Q1 2012.

4. **Belek Golf Resort and Holiday Homes Project**
SPV: Belek Emlak Insaat ve Ticaret ("Belek")

Project Description

The project consists of the development of the first golf "lifestyle" community in Belek, the golf capital of Turkey, where investors can purchase residences in a world-class luxury golf-oriented community. The community will consist of 790 residences including villas, twin villas and apartments, an eighteen hole golf course, golf club , beach club, tennis and sports center, exclusive boutique hotel with 90 rooms and 28 villas, branded world famous spa and village square shopping center. The site currently is 1,150,000 m^2 on undulating hills covered by olive and fruit trees, as well as an area of flat plain with of the Taurus Mountains to the north and the Mediterranean Sea to the south creating a scene of spectacular natural beauty. The site is 3 km from the sea and from Belek's famous golf strip.

The project will be developed in three phases and is expected to be completed in 2018. The Master Planner is WATG, the leisure industry's leading designer of resorts and hotels. The financial consultant is KPMG Leisure Industry Consultants in Budapest, the most experienced global financial consultant for golf tourism. The golf course will be designed and constructed by European Golf Design and Annika Sorenstam, a world famous professional golfer. Hotel Missoni will be the hotel management company and the spa will also be managed by a globally recognized brand. Thus, Olivion Golf Community will become the standard for a luxury golf community in Turkey.

The development will be divided into two parts. The first part includes the golf course, clubs, spa, boutique hotel, shopping areas, and administrative and maintenance areas. This part will also include administration and maintenance of the entire resort including the residences. The second part includes only the residences. The first part, “The Resort”, adds considerable value to the residences. However, it is, on its own, not particularly profitable proportional to its investment costs. The second part, “The Residence Community”, on the other hand, is very profitable thanks in large part to the value added by “The Resort”. Therefore, “The Resort” will receive a subsidy from “The Residence Community” including its land acquisition and preparation costs and will receive a 4% subsidy from the sales of the residence properties.

The shares of the SBM are in “The Residence Community”. “The Resort”, except for the subsidies mentioned above, will be financially independent and will cover all additional costs including construction costs.

Project Updates

This project is transitioning between the development phase and the construction phase. The Master Plan has been completed. All necessary government approvals are proceeding according to schedule. All necessary land has been secured. Overseas marketing has begun.

Construction of the infrastructure and golf course are projected to begin in September 2011. The overall capital and financial requirements of the project is yet to be finalized. A meeting with KPMG Budapest would be held in January 2011 to update the Marketing and Feasibility report to reflect the most recent market trends. Based upon this, the shareholders of Bekay must make their decision as to how to proceed.

However, as part of our exit strategy, we have been actively seeking potential investors through appointing third party service providers as well as our Turkish Partners to purchase the SBM’s shares in Belek. Nevertheless, by selling the shares now, we would be selling before the project has established its full earnings potential, which however is subject to finding potential buyers for the SBM’s shares. On the other hand, if the SBM’s investment in Belek project continues, it will participate in both the risk and the rewards of the project.

Current Developments

The adverse trends in Turkey’s real estate sector resulted in delays in achieving the overall objectives of the SBM. As such, due to the type of the underlying assets of the SBM, the Modareb does not anticipate the disposal of the underlying assets of the Modaraba by the end of the original Modaraba term, which would be expiring in end March 2011.

Therefore, for the best interest of the SBM and its investors, the Modareb hereby, according to the Modaraba’s terms and conditions, has decided to exercise its right to extend the Modaraba term until the underlying assets of the Modaraba are fully liquidated.

The decision of the extension has been pursued in order to minimize any expected losses and at the same time maximize any potential returns to the investors by disposing of the underlying assets in better market conditions where the exits would not be seen as distressed sale of the underlying assets.

Nevertheless, any cash generated by any four of the SBM’s projects during the extended Modaraba term would be distributed to the investors. The Modareb would be issuing additional reports titled “distribution reports” for the investors accordingly.

Extension Notice

As indicated in the Current Development above, we, Ithmaar Bank B.S.C. in our capacity as the Modareb of the SBM would like to inform our Investors that, in accordance with clause 11 of the Terms and Conditions of the Modaraba, we have decided to extend the Modaraba Term till the underling Turkish Assets of the Modaraba are fully liquidated.
