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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 & Investment Outlook¹

GDP Growth

As the Turkish Statistics Institute (TurkStat) announced, the Turkish economy grew by 3.2% in Q1 2012, marking an expected slowdown after the remarkable growth in 2011 of 8.5%. According to the government's Medium Term Economic Program ("MTEP"), the growth rate for 2012 is estimated at 4.0%, whereas the estimates of international institutions have been more moderate, with the IMF and World Bank predicting the growth to be 2.3% and 2.9%, respectively. Though the OECD estimate is more positive at 3.3%. Emerging Europe is expected to record a GDP of 1.9%, while the expectations for Advanced Europe are more negative, with a growth forecast at -0.1%. However, 2013 looks set to be the year of recovery, and the predictions are more positive. As of April 2012, the IMF predicts 3.2% growth for Turkey, 2.9% for Emerging Europe and 1.1% for Advanced Europe in 2013.

Consumer Confidence

The Consumer Confidence Index has continued its upward trajectory and reached 93.9% in March 2012, the highest since July 2011. With the increasing Eurozone uncertainty due to Greece, it decreased to 92.1% in May 2012.

In today's world, unemployment is the major concern for all economies. Although the unemployment rate has been on a declining path since January 2012, the pace of improvement is not as strong as desired. The unemployment rate decreased from 10.2% in January 2012 to 9.9% in March 2012. IMF and OECD predictions for the 2012 unemployment rate ranges between 10.3% and 9.5%. The MTEP is in line with the above estimates.

Inflation

Inflation, one of the major weaknesses of the economy, decreased from 10.45% as of end 2011 to 8.87% in June 2012. The Central Bank considerably overshoot the year-end target in 2011, which was set at 5%. The rise in the Consumer Price Index is an outcome of high energy prices and the depreciation of the TRL in Q3 2011, affecting import prices. Despite this, no immediate significant decrease is envisaged in inflation; the Central Bank's inflation target for end 2012 is still at 5%. 30% decrease in oil prices during two quarters creates hope for the Central Bank to hit its inflation target.

Investment Outlook

The recently published report by PricewaterhouseCoopers is expected to become strong evidence for global investors who are keen to enter the Turkish market. **The report envisages that Turkey would become the twelfth-largest economy in the world in 2041, moving from sixteenth, and that PPP-adjusted GDP per capita would be doubled, reaching USD 35,000.** The report also strongly underlines the

¹ Source: Jones Lang Lasalle Report titled 'Turkey Real Estate Overview'.

demographic strength of Turkey, based on the projection of a population growth of 20%, and population reaching 90 million in 2041, while more than half of the population is envisaged to be aged under 40. Particularly important for retail and hotel investment, the report also envisages that Turkey; with its current number of tourists at 27 million, has the potential to surpass the number of visitors to the UK and to approach the level of Italy.

On the other hand, a few pieces of recent legislation will boost development and investment activity in the real estate market. The Law of Reciprocity, which came into effect on 17 May 2012, lifts the condition of reciprocity for private persons to buy property in Turkey. The new law is expected to have a positive effect on residential sales, especially from the Gulf countries. As the foreign legal parties can easily buy property via a company established in Turkey, the law is not expected to make a major impact on the commercial real estate market. The law (known as 2B Law) that allows the sale and utilization of the unqualified forestry area as commercial and residential development came into effect on 25 April 2012. This law will increase the supply of available land in major sub-markets of İstanbul and the rest of Turkey, leading to major development projects.

The recent move by Moody's, upgrading Turkey's credit rating from Ba2 to Ba1 (one notch below the investment grade) in June 2012, increased expectations for Turkey to become an investment-grade country over the next 18 months. In the medium to long term, more institutional investors are expected to enter the Turkish market, with possible intervals due to the pricing gap and legal challenges. On-going economic uncertainty in the Eurozone and possible deterioration in the future will, on the contrary, trigger more investment to Turkey as Turkey's strength will be more underlined.

SBM Projects' Updates

1. Autopia Auto Shopping Center (www.autopia.com.tr) *SPV: Beylikduzu Insaat Emlak ve Ticaret ("Beylikduzu")*

Project Updates

During the first part of the year, sales have remained low mainly due to the outstanding issues between the local and the master municipalities. Sales of only 12 units (2,283.66 m²) were achieved in the last 8 months. The major outstanding issues that plagued the project for the last ten months were finally resolved on 10 September 2012. These are summarized as follows:

- A construction permit was originally obtained for Autopia from the local municipality.
- This construction permit was subsequently revoked by İstanbul Metropolitan Municipality ("IMM") who stated that as per İstanbul Zoning Municipality, the draft project that the construction permit was based on, should have been approved by IMM since the area of the project has exceeded a certain threshold.
- The IMM imposed restrictions on the title deeds and requested the necessary documents to be reorganized by the developer.
- The documents were submitted to the IMM in February and the IMM signed the preliminary plans in March 2012.
- In August 2012, the developer obtained IMM's approval to the draft project and also submitted all the relevant documentation required for the construction permit.
- Accordingly a new construction permit was obtained in August 2012 and sent to the IMM.
- The IMM issued a letter to the Land Office on 7 September 2012 to remove the restrictions on the title deeds.
- The Land Office removed the restrictions on the title deed on 10 September 2012.

Accordingly, normal sales of the remaining units in Autopia should now commence without any restrictions.

Marketing & Advertisement





New advertisements of the project were published in the magazines of Turkish Airlines, Pegasus Airlines and Onur Airlines in July 2012. Furthermore, the sales manager of Autopia is in negotiations with potential facility management firms for the management of the Autopia Auto Shopping Center.

Construction Updates

The issues with the Municipalities also resulted in delays in the construction work. As such, approximately 86% of the overall construction was complete as of end July 2012 as shown in the following table:

Project Completion Table

MANUFACTURING ITEMS	MANUFACTURING	BLOCK	BLOCK	BLOCK	BLOCK	BLOCK	TOTAL	TOTAL
		A1	A2	B	C	D		
	%	%	%	%	%	%	%	%
EARTHMOVING	5	100	100	100	100	100		
FOUNDATION	7	100	100	100	100	100		
3RD FLOOR	2				100	100		
2ND FLOOR	3			100	100	100		
1ST FLOOR	7	100	100	100	100	100		
GROUND FLOOR	9	100	100	100	100	100		
1ST NORMAL FLOOR	9	100	100	100	100	100		
2ND NORMAL FLOOR	9	100	100	100	100	100		
3RD NORMAL FLOOR	4	100	100	100	100	100		
MANUFACTURED ROUGH CONSTRUCTION LEVEL	100	100	100	100	100	100	100	
ROUGH CONSTRUCTION LEVEL IN TOTAL	55	55	55	55	55	55		55
FACADE ELEMENTS	14	100	100	100	100	100		
INTERNAL PLASTERING	2	100	100	100	100	90		
PAINT - WHITEWASH	2	80	80	85	85	85		
COVERING	5	0	0	65	65	60		
ELECTRICITY	3	1	1	65	65	60		
HEATING - COOLING	10	10	10	80	80	80		
SANITARY SYSTEM	3	35	35	80	80	80		
MISCELLANEOUS	6	80	80	85	85	85		
MANUFACTURED FINE CONSTRUCTION LEVEL	100	52	52	82	82	80	70	
FINE CONSTRUCTION LEVEL IN TOTAL	46	23	23	37	37	36	31	31
TOTAL CONSTRUCTION LEVEL	100							86

-  Not started manufacturing.
-  Finished manufacturing.
-  Manufacturing keeps on.
-  Manufacturing not mentioned in the Project.

Sales Updates

A total of 12 units with an area of 2,283.66 m² were sold during 2012 up to 31 July 2012. As such, out of 545 units with a total area of 125,624.69 m², 259 units with 62,424.59 m² area have been sold as of 31 July 2012, which represents 49.7% of the total salable area. The number of the remaining units is 286 units with 63,200.10 m² total saleable area as indicated in the following table:

	Block A Saleable Area (m ²)	Block B Saleable Area (m ²)	Block C Saleable Area (m ²)	Block D Saleable Area (m ²)	TOTAL
Basement	3,788.80	2,402.20	2,480.62	3,349.00	12,020.62
Ground	7,192.92	3,865.55	453.56	4,156.77	15,668.80
1st Floor	3,364.77	3,286.09	1,568.95	2,707.92	10,927.73
2nd Floor	3,489.08	4,965.70	1,449.46	5,339.93	15,244.17
3rd Floor	1,683.33	1,451.75	1,000.03	1,834.25	5,969.37
4th Floor			3,369.42		3,369.42
TOTAL	19,518.90	15,971.29	10,322.04	17,387.87	63,200.10

It is to be noted that the 49.7% of the total sales as indicated above includes the Block Sale of 165 units covering 42,699.87 m² sold to the developer. This represents 34% of the total salable area.

Accordingly, the actual sales to end buyers (excluding the Block Sale) total 121 units with an area of 19,724.72 m². This represents 15.7% of the total salable area.

From the sales proceeds of Autopia, a loan of approximately USD 11 million has been given to Belek (Olivion Golf Resort project) to meet its funding requirements. The loan is expected to be returned once Belek starts generating revenue.

Marketing Updates

In order to attract potential car dealers and to promote the Project, the Developer held the 'Autopia Summer Festival' from 2nd to 23rd June 2012, for the existing main car dealers in Autopia, which also aimed to build strong relationship.





Project Opening Date

The project was initially scheduled to be completed in July 2012, which is now being revised and would be decided by the Developer by end of September 2012. The delay resulted from the issues with the Municipalities

Exit strategy:

The project exit is to be achieved by way of sale of the outstanding units. Till the date of this report, 49.7% has been sold, out of which 15.7% was sold to the end buyers, while the remaining 34% was sold to the Developer in a block sale.

2. Istinye Luxury Villas Project

SPV: Bektu Insaat Emlak ve Ticaret ("Bektu")

Project Updates

Project Development

In May, 2012, the SPV entered into a Construction Work and Revenue Share and in return Property Sales Commitment and Land Share Agreement for the construction of the project (the "Agreement") with Doga Gayrimenkul Gelistirme Insaat Taahhut Pazarlama Tur. Ve Tic. Ltd. Sti., a construction company (the "Contractor"). The project would consist of first quality residences and commercial areas on 7/12 share of 18,380 m² land which belongs to Bektu according to the original plan. The construction is expected to commence in Q2-2013 and is expected to be completed in 26 months. However, this is dependent on the legal case being resolved. According to the agreement, all court expenses, attorney's fees, revised expenses of zoning statutes will be covered by the Contractor. As such and after long negotiations with the Contractor, it has been agreed to split the sales revenues between Bektu and the Contractor at 29.6%:70.4%, respectively.

Legal Cases

There has not been any material development on the legal cases regarding the land. The Court hearing of July 2012 has been postponed. Additionally, the Court hearing, which was originally scheduled on 6 March 2012, was rescheduled on 21 June 2012 when the Judge was not available and has further been postponed by the Court till October 2012 due to the nature of the interlocutory decision.

Nevertheless, due to the arrangements with the Contractor as mentioned above, and since the SPV was lacking funds to pay for the court expenses, we are expecting an improvement in the court's decisions as far as the time is concerned as all legal expenses would be covered by the Contractor. As such, we are expecting that by Q2-2013, all legal cases would be resolved.



Exit strategy: The project exit is to be achieved by either sale of SBMs' share in the project, or through pre-sales of residential units once the court cases are resolved by the Contractor and construction commences. The completion of the project is expected in 35 months from the date of this report, which is subject to finalizing the court cases by Q2-2013.

3. Orhanli Budget Housing Project

SPV: Orhanli Insaat Emlak ve Ticaret ("Orhanli")

Project Updates

The project has been completely exited with the last batch of 18 units out of a total 21 units being sold at end of July and August 2012. We are obtaining the financial information from our Turkish Partners and would indicate the overall project financial outcome in our next Investment Report.

From the sales proceeds of Orhanli, a loan of approximately USD 4.1 million has been given to Belek (Olivion Golf Resort project) to meet its funding requirements. The loan is expected to be returned from the revenues of Belek project.

The table below indicates the yearly sales proceeds:

Based on Years	No. of Units	List Price (USD)	Realized Price (USD)	Difference (USD)	Difference %
Total of 2008	48	4,101,000	3,796,268	304,732	-7.4%
Total of 2009	14	1,997,000	1,355,600	641,400	-32.1%
Total of 2010	46	5,496,417	4,668,297	828,120	-15.1%
Total of 2011	30	2,571,824	2,288,083	283,741	-11.0%
Total of 2012	21	1,022,752	834,722	188,030	-18.4%
Total	159	15,188,993	12,942,970	2,246,023	-14.8%





4. Olivion Golf Resort

SPV: Belek Emlak Insaat ve Ticaret ("Belek")

Project Updates

Updates under different stages of the project's development are given below:

Project Financing

- Negotiations for a financing facility for the development of the project are still ongoing.
- Studies related to the project finance and the capital partnerships are being continued.
- Application for the "unification" (Tevhid) of the individual plots, which was expected by second half of 2012, could not be applied due to lack of funds, hence the SPV has not yet purchased the remaining plots required for the project.
- The arrangements for the additional funds required were made by Belek with Asya Bank through an approved credit facility line for which the sales proceeds of Autopia have been assigned. However, since the sales in Autopia were stopped, Belek could not draw the credit facility amount. Once the sales in Autopia recommences, this issue should be resolved as well.
- Once the unification is approved, the plot would be sub-divided into three parcels (golf course; hotel, and residential), which would be offered to potential investors for development.

Project Engineering/Design

- The Application Project for Item 18 of the Zoning Law Number 3194 has been completed and the new title deeds have been obtained from the Office of the Land Registry. Thus, the amount of the land has been allocated for the public use (Roads, parks, primary schools, place of worships, etc.).
- Belek will do re-parcellation of Olivion land, so that hotel parcel, golf parcel and residential parcels will be separated. However, Belek would need to own all land parcels before it could apply for the re-parcellation for which additional funds are required.
- Most of the document for getting the Environment Impact Assessment (EIA) report has been completed. It is expected that the report will be ready by the end Q3-2012. EIA report is necessary to obtain the construction permit.
- The application plan for replacing of 2 irrigation channels which pass through the land in different places and belong to the State Water Works is prepared and approved. The above-ground channels will be replaced under the ground.
- The Master Plan which is expected to be completed in the last Quarter of 2012 is being prepared by WATG (Wimberly Allison Tong & Goo). WATG is responsible also for Landscaping design, Preliminary & Conceptual plans of the Missoni Hotel.
- The study for the facility management has been completed. The result of the study will be presented to a professional firm and the operation fees will be calculated.

Project Sales & Marketing

- Draft contract for the main contractor and draft tender specifications have been prepared and submitted to the attorneys for legal review.
- Due to the lack of funds, studies on the sales contracts and construction of the sales office have been suspended.



Exit strategy: Sale of the land once the land is subdivided after unification approval, subject to finding potential buyers.

Financial Statements & NAV of SBM

Ithmaar Bank has appointed KPMG Bahrain to compile the financial information of the SBM for the period from inception to 31 December 2011. KPMG started the assignment in March 2012 and draft reports are being prepared as the date of this report. The report would be distributed to the Investors separately as soon as finalized.

The information contained in this report is for information purposes only. In particular, it does not constitute any form of advice or recommendation by Ithmaar Bank B.S.C. and is not intended to be relied upon by users in making (or refraining to make) any specific investment or other decisions. Appropriate independent advice should be obtained before making or refraining to make any such decision.

Further, the information contained in this report related to past, present and future performance and intentions for the projects invested in by the SBM is provided without any warranty or guarantee. Investments in projects, project specifications, and exit strategies are subject to change at the discretion of SBM's investment manager without notice.