

Turkey
Credit Analysis

Kuveyt Turk Katilim Bankasi A.S.

Ratings

Kuveyt Turk Katilim Bankasi A.S.

Foreign Currency

Long-Term IDR*	BB
Short-Term IDR*	B
Outlook	Stable

Local Currency

Long-Term IDR*	BB+
Short-Term IDR*	B
Outlook	Stable

National

Long-Term	AA+(tur)
Outlook	Stable

Individual
Support

D
3

Sovereign Risk

Foreign Long-Term IDR*	BB-
Local Long-Term IDR*	BB-
Outlook	Stable

* IDR – Issuer Default Rating

Financial Data

Kuveyt Turk Katilim Bankasi A.S.

	31 Dec 06	31 Dec 05
Total Assets (USDm)	2,094.70	1,757.20
Total Assets (TRYm)	2,951.43	2,361.67
Equity (TRYm)	270.1	230.3
Net Income (TRYm)	40.0	18.1
ROAA (%)	1.50	0.91
ROAE (%)	15.97	8.16
Equity/Assets (%)	9.15	9.75

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■ Rating Rationale

- The Long-Term Issuer Default (IDR), Short-Term and Support Ratings of Kuveyt Turk Katilim Bankasi A.S. (Kuveyt Turk) reflect the high likelihood of support from Kuveyt Turk's majority shareholder, Kuwait Finance House (KFH, rated 'A'). The Individual Rating reflects below-average (albeit improving) operating profitability and loss of market share. These are offset by better asset quality, more stable funding and improving capitalisation.
- Kuveyt Turk was the third-largest participation bank in Turkey, with 21% of funds collected at end-2006, down from 23% in the previous year. Historically a corporate institution, the company plans to expand more into consumer lending (particularly mortgage) and will concentrate on building its retail and project finance businesses in the coming years.
- Operating profit grew sharply during 2006, principally due to improved financing income related to substantial lending growth, better fee and commissions and effective cost control. This was partially offset by narrow (although improving) margins with respect to its peers and increasing credit provisions.
- Asset quality continues to improve, with non-performing loans (NPLs) falling to 5.41% of funds granted at end-2006 (2005: 6.52%); reserve coverage has also been elevated to a moderate 69.7% of impaired loans in 2006 from a weak 52% in 2005.
- Kuveyt Turk maintains a stable deposit base with no dependence on large funders. Liquidity weakened slightly to a 19% of assets at end-2006. Shareholders injected a total of TRY69.8m cash in Q107 through a rights issue, bringing the H107 CAR to 16.1% from 15% in 2006.

Support

- Kuveyt Turk's primary source of support, were it to run into difficulties, would be its principal shareholder, KFH. Fitch Ratings believes that the parent has a high propensity to provide support, but its ability to do so may be constrained by Turkey's 'BB' Country Ceiling; hence, Kuveyt's Support Rating is limited to '3' reflecting moderate support.

■ Rating Outlook and Key Rating Drivers

- Kuveyt Turk's ratings reflect the support from KFH and have a Stable Outlook and this is likely to remain unchanged over the medium term unless the Outlook for Turkey's Sovereign Rating changes.
- The key driver of future rating upgrades in the Long-Term IDRs will be an improvement in the Sovereign Rating. The upside to Individual Rating is currently limited and would require a marked improvement in the operating environment coupled with higher profitability and capital.
- Downside risk to the Long-Term ratings could arise from a lower sovereign rating. There is little downside risk to the Individual Rating which could occur from liquidity or funding problems.

■ Profile

- Kuveyt Turk was incorporated in 1989 and is 62%-owned by KFH. The bank engages in interest-free banking, principally targeting the retail segment, mortgage-related businesses and secured financing for small and medium-sized businesses.
- Kuveyt Turk operates under the purview of the Banking Supervisory and Regulatory Agency (BRSA) and the Financial Services Act (Banking Law) dated 1 November 2005. Its status was changed to a participation bank in April 2006.

■ Profile

- **The third-largest participation bank in Turkey in terms of funds collected and funds granted at end-2006**
- **Businesses include corporate/commercial, retail and treasury, international and investment banking**
- **Approximately 62% owned by KFH**

Kuveyt Turk began operations in 1989 after receiving its licence from the Central Bank of Turkey. The company had 81 branches at July-2007 and plans to have 92 by end-2007. Initially established as special finance houses (SFH) in Turkey, all interest-free institutions were transferred to the supervision of the Banking Regulation and Supervision Agency (BRSA) in late 2005. All four interest-free institutions have been called participation banks since then.

KFH is the second-largest bank in Kuwait and operates under the purview of that country's central bank. It is a major consumer durables lender and has a large retail deposit base. Importantly, KFH is 44.1%-owned by Kuwaiti government agencies.

Shareholding Structure

	(%)
Kuwait Finance House	62.2
Directorate of Vakif Foundations –Turkey	18.7
Public Institution for Social Security – Kuwait	9.0
Islamic Development Bank	9.0
Others	1.1
Total	100.0

Source: Kuveyt Turk Katilim Bankasi A.S.

Interest-Free Banking: Banks engaging in non-interest-bearing banking offer current and profit and loss sharing (P/L) accounts. Current accounts are similar to demand deposits in conventional banks. P/L deposits are accepted for a fixed or unlimited period of time and investors agree in advance to share any profit or loss (typically 80%/20%). Neither profit nor capital is guaranteed. Profits and losses on investments are attributed to the pool of P/L accounts rather than the account of the individual investor. The participation bank may absorb the loss on the investment, with regulatory approval, to maintain its deposit relationship.

Retail Banking: Since 2003, Kuveyt Turk has placed significant emphasis on retail banking, particularly mortgage and small business lending. Management anticipates that retail banking assets will ultimately equal 50% of loans (33% as of end-2006). In addition to SME and home financing, Kuveyt Turk offers credit cards and private banking.

Retail banking produced approximately 27% of net profits in 2006.

The company signed an agreement with all participation banks for sharing ATMs. Kuveyt Turk has a partnership with 'Ortak Nokta', an ATM-sharing system established by 13 commercial banks and has another ATM-sharing agreement with Oyak Bank (rated 'BB-'). In addition to the Siz Card which was launched in 2005, the most important retail products launched in 2006 include the VIP packages to certain clients and gold-linked deposits. At end-2006, there were nearly 65,000 Siz Cards in circulation (2005: 60,000). The bank also introduced virtual and mobile POS systems to its product portfolio in 2006.

Corporate/Commercial Banking: Half of Kuveyt Turk's lending is denominated in foreign currency. The bank has historically been a commercial lender and 60% of 2006 net earnings (2005: 40%) were produced through this segment; although the percentage contribution to revenues is decreasing with management's emphasis on retail and investment banking. Services include project support financing, profit-sharing agreements, leasing, and letters of credit and guarantees. There were 8,314 corporate/commercial customers at end-2006 (2005: 5,325).

International Banking: Kuveyt Turk has an offshore branch in Bahrain and a representative office in Germany. Its corporate clients benefited from KFH's ownership, which provided opportunities in the Gulf countries. The bank started to extend its international services to retail customers in 2005 and is considering issuing longer-term debt (including securitisations) to Islamic investors.

Investment Banking: Kuveyt Turk was the first Turkish participation bank to have an active investment banking department. The bank finalised 46 transactions in 2006, with a combined value of USD182m.

Treasury: The treasury department continues to be an active player in structured financing, money-market currency trading, as well as international money-market placements and international funds collection.

Strategy: Until 2005, Kuveyt Turk had always held the top or second-largest market share among the five participation banks by assets, equity, funds collected and/or funds granted. However this changed when a) two of the institutions merged and b) two of the remaining ones started to grow faster and eventually issued new capital publicly. This has left Kuveyt Turk in the bottom rankings, having to

regain share from what had been a relatively fixed market. The bank acknowledges the fact that its branch network is necessary to increase market share and plans to reach 120 branches by the end of 2009 (current 81), with a total deposit volume of USD3.5bn (June 2007: USD1.9bn). During this time period, the bank's primary objectives will be investing into technological infrastructure, human resources and organisational capabilities. The bank's goal is to develop new international and retail markets, using its expertise in these areas to continue to build profitability while trying to keep costs stable. Mortgage and treasury operations will play a crucial role in implementing Kuveyt Turk's growth strategy. Kuveyt Turk continues to see access to Gulf investors as key to its future.

Presentation of Accounts: Unless otherwise stated, all references in this report are to the bank's consolidated financial statements, prepared in accordance with IFRS. Unconsolidated interim financial statements are prepared in accordance with Bank Regulation and Supervision Agency (BRSA) guidelines, which are very similar to IFRS.

■ Performance

- **Loss of market share due to measured growth strategy**
- **Earnings improved in 2006, but returns remain below peers'**
- **Improved cost/income ratio, with effective cost controls**

Revenues: Net financing income improved by 77% in 2006 to TRY104.5m, as gross loans and leases grew by 35% during the year, along with a margin improvement to 4.22% from 3.21%, which mainly occurred as a result of better lending policies and an overall increase in market rates. Net fees and commissions grew by 29% during 2006 to TRY57.9m. Banking fees showed healthy expansion whereas the net fees on credit card operations displayed a slowdown due to new regulations and

extensive competition. Meanwhile, the largest improvement was seen on the net commissions received from letters of guarantees, which is a segment that Kuveyt Turk plans to focus on more in the future.

Operating Expenses: Operating costs increased in a more limited trend by 20% to TRY118.7m in 2006, principally due to a controlled increase in operating expenses for maintenance, technology, advertising and other operating cost items. Personnel costs (55% of operating costs) increased by 26%, in line with the expansion in branches and staff. As a result, Kuveyt Turk's cost/income ratio improved to 66% in 2006 from 80% in 2005 but remains worse than that of its peers.

Loan Impairment: In line with the regulations, Kuveyt Turk defines a loan as impaired when a receivable is not received within 90 days of the due date. As impaired loans (after adjusting for write-offs) grew slower, by 20% in 2006, the NPL ratio fell to 5.41% in 2006 from 6.52% in 2005. Despite limited impaired loan growth, Kuveyt Turk increased the provisioning for impaired loans by more than 200% to TRY20.9m, which represents 35% of profits before taxes and provisions. This step is aimed at improving the reserve coverage of impaired loans to a below-average 70% in 2006, from 52% a year earlier. (see *Loan Loss Experience and Reserves* for more detail).

Taxation: Certain changes in the tax law in 2004 enabled the company to book a net deferred-tax asset totalling TRY18.9m that can be reduced over the next four years as profitability improves.

Interim Results: Kuveyt Turk has taken important steps in H107 to improve its capitalisation and funding. Accordingly, in February 2007, the bank acquired a two-year syndication facility of USD200m, helping to manage the maturity mismatch and diversify its liabilities. Moreover, the shareholders increased the paid-in capital through a

Performance Indicators

(%)	Kuveyt Turk		Peer group ^a	
	2006	2005	2006	2005
Asset growth	25.0	45.1	47.0	33.2
Net income growth	121.3	218.6	82.3	75.2
Net financing margin	4.22	3.21	6.87	5.99
Adjusted net financing margin ^b	4.57	3.71	7.60	6.57
Cost/income	66.2	80.4	54.8	60.8
Net income/avg assets	1.50	0.91	4.13	3.20
Net income/avg equity	16.0	8.2	33.2	32.9
Avg yield on earning assets	10.9	9.3	14.0	13.5
Avg cost of bearing liabilities	8.7	7.9	10.4	11.2

^a Asya Katilim Bankasi and Albaraka Turk

^b Net financing margin net of FX translation gains/losses as a percentage of average earning assets
Source: Fitch and Banks

rights issue and injected a total of TRY69.8m cash in Q107. As a result, in H107, Kuveyt Turk's unconsolidated assets and equity grew by 20% and 43%, respectively. This brings the end-H107 CAR to 16.1% from 15% in 2006.

Unconsolidated net income for H107 was doubled at TRY40.1m compared with TRY20.6m in H106, principally due to improving gains in net financing and net commission income, which offset trading losses and higher operating expenses. H107 results imply a rapid recovery in profitability measures, i.e. an annualised ROAE and ROAA of 27% and 2.5%, respectively, compared with 16% and 1.5% in 2006. NPL ratios and coverage of impaired loans remained stable in 1H07.

Prospects: During 2006, Kuveyt Turk maintained its third rank among the four participation banks in Turkey, but lost market share against its larger competitors. The bank continues to focus on retail banking and branch openings to build its customer base and market share; and plans to expand especially in mortgage, project finance (especially for housing projects) and SME financing. Commercial banking activities will be leveraged by emphasising the relationships in the Gulf. The bank plans to reach 120 branches by the end of 2009 and during this time period, it has set aside USD13.1m to spend on technological infrastructure, branches and organisational capabilities. The shareholders have already injected TRY69.8m cash to support the investment programme and lending growth. In 2008, the bank is planning a public offering to improve capital adequacy and equity.

Although profitability improved significantly last year and during H107, they still remain below-average relative to peers'. Fitch believes that prospects for profitability appear good as relative measures are gradually improving. Kuveyt Turk has shown committed efforts in enhancing asset quality. Fitch believes that prospects for asset quality should further be supported by increasing the reserve coverage of impaired loans.

■ Risk Management

- **Administrative steps taken in 2006 to enhance the risk management profile**
- **Asset quality continued to improve**
- **The low reserve coverage for impaired loans has slightly improved in 2006**

The bank replaced the executive risk committee with an audit and risk committee in 2006, which is responsible for all types of risk and consists of four non-executive board members. The general management credit committee has a lending

authority of up to 1% of equity and the credit committee between 1% and 10%. Applications above these levels are forwarded to the board. The bank has established a separate department for monitoring loan collaterals. Loan placement and performance-tracking functions have also been divided into separate departments. Lastly, one new department is in place to monitor compliance rules and regulations. Kuveyt Turk has risk criteria for each targeted sector and uses a credit-rating system consisting of 38 main criteria, based on which each credit is graded, up to a maximum score of 100.

Credit Risk: Gross financing activities (including leasing) increased by 35% to TRY2,328m at end-2006 from TRY1,726m at end-2005. The growth was driven by the 38% growth in lending; whereas the growth in lease finance was flat yoy. Financing to the textile, food and construction sectors accounted for 51% of total loans. Consumer loans accounted for 33% of the total portfolio at end-2006, compared with 22% in the previous year. Approximately 86% of total lending is secured with collaterals and 60% of the collaterals are composed of real estate (maximum loan equal to 75% of appraised value).

Kuveyt Turk slightly reduced the size of its large exposures last year. The bank's 20 largest cash and non-cash credits equalled 9.3% and 29% of the respective totals at end-2006 compared with 12% and 29%, respectively, in the previous year. The company has virtually no lending to related parties but has investments in KFH and Islamic Development Bank held as available-for-sale equities. Since Kuveyt Turk finances medium- and longer-term projects, 32% of its loan and lease portfolio matured in excess of one year at end-2006.

The bank owned construction projects (principally through Korfez Real Estate) totalling TRY4.5m at end-2006 (2005: TRY8.6m); these consisted mainly of time-share houses. Investment properties totalled TRY38.3m and largely consisted of a building (valued at TRY23.8m) financed by KFH and a foreclosed property of TRY10.4m (2005: TRY11.9m). Rental income from the building is transferred to KFH and there is no depreciation charge for Kuveyt Turk.

Other Earning Assets: Short-term accounts with banks and other financial institutions accounted for 10% of assets at end-2006 (2005: 12%) with interest-bearing deposits with the Central Bank equalling an additional 7% of assets. Kuveyt Turk trades commodities for liquidity purposes.

Loan Loss Experience and Reserves: Gross impaired financing receivables (including leases)

increased by 12% to TRY126m (5.4% of the portfolio) at end-2006 from TRY112.5m (6.5%) at end-2005. Adjusting for the write-offs in 2006, the growth in gross impaired receivables was 20%. Impaired leasing receivables displayed a nominal 42% decline due to a TRY6.3m write-off. Meanwhile, impaired receivables from loans (adjusted for the write-offs) increased by 29.9%, still lower than the portfolio growth of 39%. In 2006, 44% of the increase in impaired receivables was driven by seven individual credits that became non-performing. The largest 20 loans in arrears account for approximately 34% of total impaired credit and most date from the economic crisis of 2001. In 2006, Kuveyt Turk provisioned TRY20.9m for impaired loans, helping to improve coverage of impaired loans to a moderate 69.7% from a weak 52% a year earlier. Kuveyt Turk also had foreclosed assets awaiting sale of TRY10.4m at end-2006 compared with TRY11.9m at end-2005. When added to NPLs, impaired assets totalled 5.84% of loans and foreclosed property at end-2006 (2005: 7.16%).

Maturity and Market Risk: Kuveyt Turk calculates market risk according to the BRSA standard methodology. The bank has studied various value-at-risk approaches such as parametric, historical simulation and Monte Carlo, but has yet to adopt any specific method. The bank's principal market risks are liquidity risk, foreign currency risk and price risk (effective interest rate). Kuveyt Turk monitors liquidity and foreign-currency risk through its asset and liability committee, which prepares periodic reports on, for example, cash flows, balance-sheet fluctuations, maturity structure, anticipated lending requirements and problem assets.

Given its longer-term financing portfolio, the bank has a structural maturity mismatch. At end-2006, approximately 40% of assets matured within three months, compared with 80% of liabilities. Expected repricing dates do not differ substantially from contractual dates. Kuveyt Turk had a combined on- and off-balance-sheet short position totalling 8.9% of equity at end-2006.

■ **Funding and Capital**

- **Relatively diversified deposit base**
- **Capital improved in H107 due to a cash capital injection from shareholders**
- **Asset liquidity remains adequate**

Funding: Kuveyt Turk is funded by current and profit/loss sharing accounts, which represented 19% and 61%, respectively, of total liabilities at end-2006. Approximately 62% of these funds are denominated in foreign currency. Nearly 96% matured within three months. Similar to the loan portfolio, the

deposit base is also diversified. The top 20 depositors represented 6.92% of the total at end-2006 (2005: 6.9%). Shareholders account for 16% of the top 20 and 1.4% of the total. Management has indicated that depositors have been very loyal and since 2002, the average renewal rate is above 96% for P/L accounts. At end-2006, the bank had short-term and long-term foreign currency borrowings totalling TRY277.1m (2004: TRY196.5m).

Liquidity: Liquid assets (cash and assets due from banks, deposits with banks and central bank deposits, weakened to 19.0% of assets at end-2006 compared with 22.7% at end-2005. In order to manage liquidity risk, the bank monitors large deposits on a regular basis to assess cash-flow needs. Kuveyt Turk views liquid assets as cash, bank deposits with maturities under one month and deposits with the central bank; it typically places excess funds on the London Metals Exchange. Other sources of liquidity include monthly cash flows from loan and lease repayments.

Capital: Equity rose by 17% during 2006, to 9.15% of total assets. This has helped Kuveyt Turk's Tier 1 and Total capital ratios to improve slightly to 14.60% and 15.01%, respectively, at end-2006, from 12.40% and 13.27% at end-2005. In H107, the shareholders increased the paid-in capital through a rights issue and injected a total of TRY69.8m cash. As a result, Kuveyt Turk's unconsolidated equity grew by 43% in H107. This brings the end-H107 CAR to a moderate 16.1% from 15.01% in 2006. H107 CAR also includes the impact of recently introduced (as of end-H107) operational risk (250bps negative impact on CAR). The extent of the impact from operational risk was widely expected by the management. The resulting impact was also in line with the rest of the commercial banks where the impact on sector CAR was a negative 270bps. The free capital, adjusted for fixed assets, deferred-tax assets, intangibles, construction projects, investment property and unreserved NPLs equalled a weak (although improving) 3.4% of total assets by end-2006 (2005: 1.9%).

The board plans to seek shareholder approval to raise new capital through an initial public offering in early 2008, depending on market conditions. Management states that KFH's intention is definitely to maintain an ownership above 50% after the pending IPO. Because of its robust growth plans, small size and volatile operating environment, Fitch believes that Kuveyt Turk should continue to seek new equity whenever possible to strengthen its balance sheet. The reduction in NPL ratio, improved reserve coverage, funding stability and support from a well-rated shareholder are positive offsets.

Balance Sheet Analysis
KUYEY TURK KATILIM BANKASI A.S (C.)

	31 Dec 2006				31 Dec 2005		31 Dec 2004		31 Dec 2003	
	Year End USDm Original	Year End TRZth Original	As % of Assets Original	Average TRZth Original	Year End TRZth Original	As % of Assets Original	Year End TRZth Restated	As % of Assets Restated	Year End TRZth Restated	As % of Assets Restated
A. LOANS										
1. Short-term	971.1	1,368,296.0	46.36	1,173,881.5	979,467.0	41.47	200,581.0	12.32	94,163.4	6.91
2. Medium and Long-term	481.0	677,731.0	22.96	582,197.0	486,663.0	20.61	657,890.0	40.41	526,090.2	38.58
3. Other	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Impaired	89.5	126,057.0	4.27	119,304.5	112,552.0	4.77	207,226.0	12.73	203,622.0	14.93
5. Leased Assets	110.9	156,261.0	5.29	151,562.0	146,863.0	6.22	172,299.0	10.58	208,720.4	15.31
6. (Loan Loss Reserves)	62.3	87,830.0	2.98	73,194.0	58,558.0	2.48	124,330.0	7.64	121,922.9	8.94
TOTAL A	1,590.1	2,240,515.0	75.91	1,953,751.0	1,666,987.0	70.59	1,113,666.0	68.41	910,673.1	66.78
B. OTHER EARNING ASSETS										
1. Deposits with Banks	217.2	306,051.0	10.37	294,834.0	283,617.0	12.01	162,601.0	9.99	175,335.5	12.86
2. Deposits with Central Bank	137.5	193,786.0	6.57	195,174.0	196,562.0	8.32	128,532.0	7.90	117,493.6	8.62
3. Government Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Other Investments	20.5	28,890.0	0.98	34,309.5	39,729.0	1.68	77,253.0	4.75	18,330.0	1.34
5. Equity Investments	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL B	375.2	528,727.0	17.91	524,317.5	519,908.0	22.01	368,386.0	22.63	311,159.1	22.82
C. TOTAL EARNING ASSETS (A+B)	1,965.4	2,769,242.0	93.83	2,478,068.5	2,186,895.0	92.60	1,482,052.0	91.04	1,221,832.2	89.60
D. FIXED ASSETS	48.8	68,787.0	2.33	66,682.5	64,578.0	2.73	58,795.0	3.61	51,597.8	3.78
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	44.1	62,132.0	2.11	58,107.0	54,082.0	2.29	39,181.0	2.41	24,066.2	1.76
2. Other	36.4	51,273.0	1.74	53,691.5	56,110.0	2.38	47,859.0	2.94	66,131.9	4.85
F. TOTAL ASSETS	2,094.7	2,951,434.0	100.00	2,656,549.5	2,361,665.0	100.00	1,627,887.0	100.00	1,363,628.1	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Current Accounts	399.9	563,455.0	19.09	486,544.5	409,634.0	17.35	271,563.0	16.68	222,330.4	16.30
2. Profit/Loss Accounts	1,286.2	1,812,306.0	61.40	1,661,641.5	1,510,977.0	63.98	1,060,980.0	65.18	926,088.5	67.91
3. Other Deposits	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Interbank Deposits	196.7	277,143.0	9.39	236,824.5	196,506.0	8.32	54,811.0	3.37	63,124.4	4.63
5. Other Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL G	1,882.8	2,652,904.0	89.89	2,385,010.5	2,117,117.0	89.65	1,387,354.0	85.22	1,211,543.3	88.85
H. OTHER FUNDING										
1. Subordinated Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Other Long-term Borrowing	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Hybrid Capital	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
I. OTHER LIABILITIES	18.4	25,871.0	0.88	19,107.0	12,343.0	0.52	24,716.0	1.52	10,374.6	0.76
J. LOAN LOSS RESERVES (see A above)										
K. OTHER RESERVES	1.8	2,537.0	0.09	2,215.0	1,893.0	0.08	3,413.0	0.21	1,412.3	0.10
L. EQUITY										
1. Preference shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Common equity	191.7	270,122.0	9.15	250,217.0	230,312.0	9.75	212,404.0	13.05	140,297.9	10.29
TOTAL L.	191.7	270,122.0	9.15	250,217.0	230,312.0	9.75	212,404.0	13.05	140,297.9	10.29
M. TOTAL LIABILITIES & EQUITY	2,094.7	2,951,434.0	100.00	2,656,549.5	2,361,665.0	100.00	1,627,887.0	100.00	1,363,628.1	100.00
Exchange Rate		USD1 = TRZ 1.4090			USD1 = TRZ 1.3451		USD1 = TRZ 1.3451		USD1 = TRZ 1.3451	

Income Statement Analysis
KUYEY TURK KATILIM BANKASI A.S (C.)

	31 Dec 2006		31 Dec 2005		31 Dec 2004		31 Dec 2003	
	Income Expenses	As % of Total AV Earning Assts	Income Expenses	As % of Total AV Earning Assts	Income Expenses	As % of Total AV Earning Assts	Income Expenses	As % of Total AV Earning Assts
	TRZth Original	TRZth Original	TRZth Original	TRZth Original	TRZth Restated	TRZth Restated	TRZth Restated	TRZth Restated
1. Income from Financing Activities	269,592.0	10.88	170,852.0	9.31	143,033.0	10.58	113,826.3	9.06
2. Profit Share Expense	165,060.0	6.66	111,927.0	6.10	87,715.0	6.49	76,904.9	6.12
3. NET FINANCING INCOME	104,532.0	4.22	58,925.0	3.21	55,318.0	4.09	36,921.4	2.94
4. Net Fees & Commissions	57,983.0	2.34	44,917.0	2.45	27,730.0	2.05	18,937.4	1.51
5. Other Operating Income	16,801.0	0.68	19,506.0	1.06	716.0	0.05	5,830.2	0.46
6. Personnel Expenses	65,507.0	2.64	51,958.0	2.83	33,927.0	2.51	22,946.5	1.83
7. Other Operating Expenses	53,207.0	2.15	47,222.0	2.57	37,270.0	2.76	42,204.9	3.36
8. Loan Loss Provisions	20,931.0	0.84	6,828.0	0.37	9,832.0	0.73	12,762.2	1.02
9. OPERATING PROFIT	39,671.0	1.60	17,340.0	0.95	2,735.0	0.20	-16,224.6	-1.29
10. Other Income and Expenses	n.a.	-	n.a.	-	n.a.	-	n.a.	-
11. PROFIT BEFORE EXCEPTIONAL ITEMS	39,671.0	1.60	17,340.0	0.95	2,735.0	0.20	-16,224.6	-1.29
12. Exceptional Items	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. PRE-TAX PROFIT	39,671.0	1.60	17,340.0	0.95	2,735.0	0.20	-16,224.6	-1.29
14. Taxes	-286.0	-0.01	-717.0	-0.04	-2,932.0	-0.22	-19,559.4	-1.56
15. Published Net Income Including Minorities	39,957.0	1.61	18,057.0	0.98	5,667.0	0.42	3,334.8	0.27
16. FITCH NET INCOME	39,957.0	1.61	18,057.0	0.98	5,667.0	0.42	3,334.8	0.27

Ratio Analysis

KUVEYT TURK KATILIM BANKASI A.S (C.)

		31 Dec 2006 Original	31 Dec 2005 Original	31 Dec 2004 Restated	31 Dec 2003 Restated
I. PROFITABILITY LEVEL					
1. Pre-tax Profit/Total Assets (av.)	%	1.49	0.87	0.18	-1.17
2. Net income less pref.Dividends/ Common equity(av.)	%	15.97	8.16	3.21	2.40
3. Net Income/Equity (av.)	%	15.97	8.16	3.21	2.40
4. Net Income/Total Assets (av.)	%	1.50	0.91	0.38	0.24
5. Operating Expense/Net Financing Income Other Operating Income	%	66.20	80.41	85.00	105.61
6. Net Financing Income./Total Assets (av.)	%	3.93	2.95	3.70	2.65
7. Net Financing Income Adjusted for F/X Losses/Total Assets (av.)	%	4.26	3.42	3.85	3.19
II. CAPITAL ADEQUACY (year end)					
1. Internal Capital Generation	%	15.91	8.09	2.97	1.71
2. Equity/Total Assets	%	9.15	9.75	13.05	10.29
3. Equity/Loans	%	12.06	13.82	19.07	15.41
4. Capital/Risks - Tier 1	%	14.60	12.40	15.40	10.46
5. Capital/Risks - Total	%	15.01	13.27	18.60	14.50
6. Free Capital/Total Assets	%	5.53	4.73	4.34	0.51
7. Common Equity/Total Assets	%	9.15	9.75	13.05	10.29
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	21.18	25.24	23.81	25.74
2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding	%	22.27	27.11	29.38	27.67
3. Loans/Deposits & Money Mkt Funding	%	87.77	81.50	89.23	85.23
IV. ASSET QUALITY					
1. Loan Loss Provisions/Loans (av.)	%	1.07	0.49	0.97	1.42
2. Loan Loss Provisions/Profit before Provisions and Tax	%	34.54	28.25	78.24	-368.59
3. Loan Loss Reserves/Gross Loans	%	3.77	3.39	10.04	11.81
4. Impaired Loans/Gross Loans	%	5.41	6.52	16.74	19.72
5. Impaired Loans net/equity	%	14.15	23.44	39.03	7.70
6. Loan Loss Reserves/Impaired Loans	%	69.67	52.03	60.00	59.88
7. Impaired Assets/Total Loans and foreclosed property	%	5.84	7.16	17.44	20.63

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