

Turkey
Credit Update

Kuveyt Turk Katilim Bankasi A.S.

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	BB
Short-Term IDR	B
Local Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
National	
Long-Term	AAA (tur)
Individual Support Rating	D 3
Sovereign Risk	
Foreign Long-Term IDR	BB-
Local Long-Term IDR	BB

Outlook

Foreign Long-Term IDR	Stable
Local Long-Term IDR	Stable
National Long-Term	Stable
Sovereign Foreign Long-Term IDR	Stable
Sovereign Local Long-Term IDR	Stable

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
Total Equity (TRYm)	270.1	230.3
Published Net Income (TRYm)	40.0	18.1
ROAA (%)	1.50	0.91
ROAE (%)	15.97	8.16
Equity/Assets	9.15	9.75

Analysts

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Rating Rationale

- The Long-Term Issuer Default (IDR), Short-Term Local Currency IDR, National 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.
- 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.

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.

Balance Sheet Analysis

KUVEYT 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

KUVEYT TURK KATILIM BANKASI A.S (C.)

	31 Dec 2006		31 Dec 2005		31 Dec 2004		31 Dec 2003	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	TRZth	Earning Assts	TRZth	Earning Assts	TRZth	Earning Assts	TRZth	Earning Assts
	Original	Original	Original	Original	Restated	Restated	Restated	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