

Turkey  
Credit Analysis

Kuveyt Turk Katilim Bankasi A.S.

Ratings

**Kuveyt Turk Katilim Bankasi A.S.**

**Foreign Currency**

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

**Local Currency**

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

**National**

Long-Term	AA (tur)
Outlook	Stable

Individual Support

D  
3

**Sovereign Risk**

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

\* IDR – Issuer Default Rating

Financial Data

**Kuveyt Turk Katilim Bankasi A.S.**

	31 Dec 05	31 Dec 04
Total Assets (USDm)	1,757.2	1,215.3
Total Assets (TRL000s)	2,363,466.0	1,627,887.0
Equity (TRL000s)	230,312.0	212,404.0
Net Income (TRL000s)	18,057.0	5,667.0
ROA (%)	0.90	0.38
ROE (%)	8.16	3.21
Equity/Assets (%)	9.74	13.05

Analysts

Ed Thompson, New York  
+1 212 908 0364  
ed.thompson@fitchratings.com

Turda Ozmen, Istanbul  
+90 212 279 1065  
turda.ozmen@fitchratings.com

■ 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 as well as somewhat diminished capitalisation. These are offset by better asset quality, more stable funding and adequate liquidity.
- Kuveyt Turk was the third-largest participation bank in Turkey, with 24% of funds collected at end-2005, up from 22% in the previous year. Historically a corporate institution, the company has expanded into consumer lending (particularly mortgage and auto finance) and will concentrate on building its real estate and asset-backed securities businesses in the coming year.
- Operating profit grew sharply during 2005, principally due to improved fee and commission income and higher net financing income related to substantial lending growth. This was partially offset by continued poor efficiency and a reduction in margins because of the general decline in market rates. Credit provisions diminished.
- Asset quality improved markedly, with non-performing loans (“NPLs”) falling 46% to 6.52% of funds granted at end-2005 (2004: 16.74%); reserve coverage continues to be weak at 52%. Most of the reduction came from write-off of NPLs with previously-established 100% reserves.
- Kuveyt Turk maintains a stable deposit base with no dependence on large funders. The bank improved its liquidity to 22% of assets at end-2005. After an equity infusion in 2004, Kuveyt Turk’s Tier 1 capital ratio diminished to 12.40% at end-2005 from 15.40%. Free capital remains weak at 2.5% of assets after deduction of all permanent assets and unreserved NPLs.

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 support but its ability to do so may be constrained by the transfer risk associated with Turkey. Kuveyt’s Support rating is limited to ‘3’.

■ Rating Outlook and Key Rating Drivers

- Kuveyt Turk’s ratings have a Positive Outlook, reflecting the outlook of Turkey’s sovereign rating. This is likely to remain 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 key drivers of Individual rating upgrades will be improved asset quality, 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 company engages in interest-free banking, principally 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 name 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-2005**
- **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 68 branches at end-2005 and plans to have 84 by end-2006. 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”) and the Banking Law No. 5411, dated 1 November 2005. All four interest-free institutions are now called participation banks.

Shareholders of Kuveyt Turk injected USD51.5m in cash in September 2004. The ownership structure is detailed in the table below. 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
<b>Total</b>	<b>100.0</b>

Source: Kuveyt Turk Katilim Bankasi A.S.

**Interest-Free Banking:** Banks engaging in non-interest-bearing banking offer current and 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 100% of 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 automobile and mortgage lending. Management anticipates that retail banking assets

will ultimately equal 25% of loans. In addition to car and home financing, Kuveyt Turk offers credit cards, project financing to small businesses, and private banking. Retail banking produced approximately 45% of bank profits in 2005.

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-’). The most important retail product launched in 2004 was the Siz Card. At end-2005, there were nearly 60,000 in circulation. Debit cards totalled 120,000 and point-of-sale terminals increased to 3,966.

**Corporate/Commercial Banking:** The bulk of Kuveyt Turk’s lending is denominated in foreign currency. The bank has historically been a business lender, 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. The company focuses on export industries, with the foodstuffs, textiles, automotive and electronics sectors. There were 5,325 customers at end-2005. Corporate/commercial banking produced approximately 40% of bank profits in 2005.

**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 16 transactions with a combined value of USD33m. The bank has a mergers and acquisitions unit to provide buy-side and sell-side advisory services.

**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.

**Direct Investments Department:** This unit was established in 2004 to help Kuveyt Turk expand the range of products it offers customers and shareholders. It is charged with strategic investments in outside institutions and subsidiaries. The department provides advisory services to Korfez Real Estate, a Kuveyt Turk subsidiary, and manages

its existing projects. Korfez is engaged in the development and marketing of real estate projects in Turkey, including the construction of 199 time-share units. Its main revenue is through sales of projects and valuations for third parties. The department helped establish Autoland, a car-sales and fleet-leasing venture.

**Strategy:** Until recently, 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 or the institutions merged and b) one of the remaining ones started to grow aggressively and eventually issued new capital publicly. This has left Kuveyt Turk in the position of having to regain share from what had been a relatively fixed market. Projections for growth in the interest-free banking market have not yet come to fruition. 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. The write-off of old problem loans to clean up the balance sheet in advance of an IPO is also part of the strategy to reduce funding costs, Kuveyt Turk continues to see access to Gulf investors as key to its future.

**Presentation of Accounts:** Fitch's analysis is based on consolidated financial statements prepared in accordance with IFRS, including inflation-adjusted accounting.

■ Performance

- **Pre-tax and after-tax results improved in 2005, but returns remain below average**
- **Weak operating margin**
- **Efficiency measures worse than peers**

**Revenues:** Net financing income improved by 7% in 2005 to TRY59.8m, as gross loans and leases grew by 42% during the year (earning assets rose 50%). This offset margin shrinkage to 2.95% from 3.70% in 2004 due the general decline in market rates. Because of an increase in foreign exchange translation gains, the adjusted margin in 2005 was a bigger improvement than in the previous year.

Net fees and commissions grew by 62% during 2005 to TRY44.9m. Banking fees and credit card fees both showed healthy expansion and, together, represented nearly three-quarters of the total. Other operating income included gains on stock exchange and trading (TRY9.1m) and income from construction projects (TRY3.1m).

**Operating Expenses:** Operating costs increased by 42% to TRY101.2m in 2005, principally due to

Comparative performance

(%)	2005 Kuveyt Turk	2005 Peer Group*
Asset Growth	45.19	35.91
Net Income Growth	218.63	75.88
Net Financing Margin	2.95	5.43
Adj. Net Financing Margin**	3.41	5.91
Cost/Income	80.72	57.94
ROA	0.90	3.16
ROE	8.16	32.42
Equity/Assets	9.74	10.35

\*Asya Katilim and Albaraka Katilim

\*\* Net financing income plus FX gains as a percentage of average assets

Source: Banks adjusted by Fitch

higher personnel (51% of operating costs), technology, branch, sales and administrative expenses. Kuveyt Turk's cost/income ratio improved to 80% in 2005 from 85% in 2004 but remains worse than that of its peers. The bank's costs deteriorated to 5% of average assets from 4.8% in the previous year.

**Provisions for Asset Impairment:** As impaired loans diminished, Kuveyt Turk reduced new provisions for impairment by 31% in 2005 to TRY6.8m from TRY9.8m in 2004. This represented 28% of profits before taxes and provisions, a dramatic improvement from the 78% recorded in the previous year. Reserve coverage of impaired loans remains weak at 52%. (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:** Unconsolidated net income for H106 under BRSA accounting principles totalled TRY20.7m compared with TRY11.9m in H105 principally due to gains in net financing and net commission income which offset higher provisions. While equity increased by 9.6% due to earnings growth, it diminished by 10% in USD terms to 8.32% of assets at end-June 2006 from 9.74% at end-2005 due to the sharp devaluation of the Turkish Lira in Q206.

**Prospects:** During 2005, Kuveyt Turk lost market share among the participation banks in Turkey, which held 3.7% of the deposits of all Turkish financial institutions at end-2005 compared with 3.0% at end-2004. The bank continues to focus on retail banking to build its customer base and plans to expand its commercial banking through concentration on international activities, particularly by emphasising its relationships in the Gulf.

Although profitability improved significantly last year and during H106, earnings remain below average relative to peers despite relatively modest credit provisions due to thin operating margins and inefficient operations. Commission income generation is good. Kuveyt Turk has made substantial strides in improving asset quality and Fitch believes that prospects for continued recovery appear good as few new problems have arisen in recent years. Nonetheless, credit growth has been rapid and could portend problems should economic conditions deteriorate.

Since the 2004 capital infusion, equity measures have deteriorated and Kuveyt Turk's total capital ratio is expected to decline to a minimum of 12% before new cash will be injected by existing shareholders and/or through a public offering. This will be critical to finance the bank's aggressive branch expansion (a total of 100 branches by 2009) and lending plans. Funding diversification and maintenance of sufficient balance sheet liquidity will also be important.

■ Risk Management

- **Asset quality improved considerably in 2005 as impaired loans decreased due to sizeable write-offs**
- **Weak reserve coverage of problem credits**
- **Reduced concentration risk by sector and by borrower**

The executive risk committee is responsible for all types of risk and consists of the heads of the institution risk, credit risk and asset/liability management committees. 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 an operations centre to supervise transactions on a real-time basis, thus increasing the efficiency of the credit process and reducing costs. 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. These grades translate into a 10-point rating system. Approximately 4% of the performing loan portfolio was rated in the lowest four categories at end-2005. The rating system will be revised in 2007 in order to be compliant with Basel II.

**Credit Risk:** Gross financing activities (including leasing) increased by 39% to TRY1,725.5m at end-2005 from TRY1,238.0m at end-2004. Financing to the textile, leather and construction sectors accounted for 58% of the growth. The company has

Sector Distribution of Performing Financing Activities\*

(%)	2005	2004
Textile and Leather	26	28
Food and Beverages	14	16
Chemicals and Petroleum	8	9
Metal Products	8	8
Automotive	8	7
Construction	10	6
Forestry	5	5
Electronics	3	4
Paper	3	3
Health and Social Services	5	3
Computer	2	2
Other Industries	8	9
<b>Total</b>	<b>100</b>	<b>100</b>

\* Excluding Overdue Receivables and Leasing Assets  
Source: Kuveyt Turk Katilim Bankasi A.S.

entered into commercial real-estate transactions through its subsidiary, Korfez Real Estate.

Consumer loans accounted for 22.2% of the total portfolio at end-2005 compared with 17% in the previous year. Approximately 55% of the portfolio is secured by residential mortgages (maximum of loan equal to 75% of appraised value) and 40% is secured by vehicles. The retail credit assessment department started using a scoring system in July 2003 and added data from a central credit registration bureau in June 2004.

Kuveyt Turk reduced the size of its large exposures last year. The bank's 20 largest cash and non-cash credits equalled 12% and 29% of the respective totals at end-2005 compared with 19% and 37%, 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, approximately 35% of its loan and lease portfolio matured in excess of one year at end-2004. The company lends against land and commercial real estate up to 60% and 70% of appraised value, respectively.

The bank owned construction projects (principally through Korfez Real Estate) totalling TRY8.6m at end-2005 (2004: TRY12.1m); these consisted mainly of time share houses. Investment properties totalled TRY25.0m and consisted of a building financed by KFH. Rental income is transferred to KFH and there is no depreciation charge to Kuveyt Turk.

**Other Earning Assets:** Short-term accounts with banks and other financial institutions accounted for 12% of assets at end-2005 (2004: 10%) with interest-bearing deposits with the Central Bank equalling an additional 8% of assets. The majority of placements

were denominated in foreign currency and approximately 37% were with domestic banks. Kuveyt Turk trades commodities for liquidity purposes.

**Loan Loss Experience and Reserves:** Gross impaired financing receivables (including leases) improved sharply by 46% to TRY112.5m (6.52% of the portfolio) at end-2005 from TRY207.2m (16.74%) at end-2004. Because of the bank's plans to issue new equity publicly in 2006 or 2007, management decided to write-off a number of longstanding problem credits. Gross charge-offs exceeded TRY62m in 2005 and accounted for two-thirds of the reduction in NPLs. The largest 20 loans in arrears account for approximately 50% of total impaired credit and most date from the economic crisis of 2001. Kuveyt Turk also had foreclosed assets awaiting sale of TRY11.9m at end-2005 compared with TRY10.5m at end-2004.

The internal audit unit ensures that all aspects of Kuveyt Turk's operations fully conform with KFH's policies and strategies as well as sector regulations and legislation.

**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 has yet to adopt any specific method. Kuveyt Turk tests the effects of a systemic crisis such as the devaluation of the Turkish lira.

The bank's principal market risks are liquidity risk, foreign currency risk and profit rate, or price risk. 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-2005, approximately 69% of assets matured within one year, compared with 99% of liabilities. Expected repricing dates do not differ substantially from contractual dates. Kuveyt Turk had a combined on-balance and off-balance sheet short position totalling 8.8% of equity at end-2005. The bank does not enter into any derivative contracts to hedge its foreign exchange exposure, leaving it exposed to a material devaluation of the Turkish lira.

## ■ Funding and Capital

- **Relatively diversified deposit base**
- **Capital improved during 2004 due to a cash capital injection from shareholders**
- **Asset liquidity is adequate**

**Funding:** Kuveyt Turk is funded by current and profit/loss sharing accounts which represented 21% and 69%, respectively, of total liabilities at end-2005. Approximately 58% of these funds are denominated in foreign currency. Nearly 91% matured within three months and many are price sensitive. Similar to the loan portfolio, the deposit base has become more diversified. The top 20 depositors represented 6.9% of the total at end-2005 (2004: 8.7%). Shareholders account for 12% of the top 20 and less than 1% of the total. Management has indicated that depositors have been very loyal since the economic crisis over five years ago. At end-2005, the bank had short-term and long-term foreign currency borrowings totalling TRY196.5m (2004: TRY54.8m). Short-term borrowings from KFH totalled TRY16.5m. KFH also lent TRY24.4m to finance the purchase of investment property.

**Liquidity:** In order to manage liquidity risk, the bank monitors large deposits on a regular basis to assess cash flow needs. The Treasury 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. Short-term accounts with banks aggregated 12% of end-2005 assets. Other sources of liquidity include monthly cash flows from loan and lease repayments.

**Capital:** Equity rose by only 8.4% during 2005 as profitability remained subdued. After shareholders injected new cash capital in 2004 to finance growth, rapid credit expansion caused Kuveyt Turk's Tier 1 and total capital ratios to worsen to 12.40% and 13.27%, respectively, at end-2005, from 15.40% and 18.60% at end-2004. Free capital, after deduction of all permanent and intangible assets, improved to only 2.42% of assets at end-2005 from 0.50% at end-2004. The board plans to seek shareholder approval to raise new capital through an initial public offering in late 2006 or early 2007 depending on market conditions. Because of its substantial level of permanent assets, 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 overleveraged balance sheet. The reduction in NPLs, improved funding stability and support from a well-rated shareholder are positive offsets.

Balance Sheet Analysis

KUVEYT TURK KATILIM BANKASI A.S (C.)

	31 Dec 2005				31 Dec 2004		31 Dec 2003		31 Dec 2002	
	Year End	Year End	As % of	Average	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	TRZth	Assets	TRZth	TRZth	Assets	TRZth	Assets	TRZth	Assets
	Original	Original	Original	Original	Restated	Restated	Restated	Restated	Restated	Restated
<b>A. LOANS</b>										
1. Short-term	105.6	142,102.0	6.01	171,341.5	200,581.0	12.32	94,163.4	6.91	n.a.	-
2. Medium and Long-term	984.4	1,324,028.0	56.02	990,959.0	657,890.0	40.41	526,090.2	38.58	n.a.	-
3. Other	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	532,498.0	37.51
4. Impaired	83.7	112,552.0	4.76	159,889.0	207,226.0	12.73	203,622.0	14.93	264,721.0	18.65
5. Leased Assets	109.2	146,863.0	6.21	159,581.0	172,299.0	10.58	208,720.4	15.31	222,306.4	15.66
6. (Loan Loss Reserves)	43.5	58,558.0	2.48	91,444.0	124,330.0	7.64	121,922.9	8.94	133,627.3	9.41
<b>TOTAL A</b>	<b>1,239.3</b>	<b>1,666,987.0</b>	<b>70.53</b>	<b>1,390,326.5</b>	<b>1,113,666.0</b>	<b>68.41</b>	<b>910,673.1</b>	<b>66.78</b>	<b>885,898.1</b>	<b>62.40</b>
<b>B. OTHER EARNING ASSETS</b>										
1. Deposits with Banks	210.9	283,617.0	12.00	223,109.0	162,601.0	9.99	175,335.5	12.86	268,799.4	18.93
2. Deposits with Central Bank	146.1	196,562.0	8.32	162,547.0	128,532.0	7.90	117,493.6	8.62	132,681.2	9.35
3. Government Securities	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Other Investments	35.9	48,329.0	2.04	62,791.0	77,253.0	4.75	18,330.0	1.34	2,315.9	0.16
5. Equity Investments	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>TOTAL B</b>	<b>392.9</b>	<b>528,508.0</b>	<b>22.36</b>	<b>448,447.0</b>	<b>368,386.0</b>	<b>22.63</b>	<b>311,159.1</b>	<b>22.82</b>	<b>403,796.5</b>	<b>28.44</b>
<b>C. TOTAL EARNING ASSETS (A+B)</b>	<b>1,632.3</b>	<b>2,195,495.0</b>	<b>92.89</b>	<b>1,838,773.5</b>	<b>1,482,052.0</b>	<b>91.04</b>	<b>1,221,832.2</b>	<b>89.60</b>	<b>1,289,694.6</b>	<b>90.84</b>
<b>D. FIXED ASSETS</b>	<b>48.0</b>	<b>64,578.0</b>	<b>2.73</b>	<b>61,686.5</b>	<b>58,795.0</b>	<b>3.61</b>	<b>51,597.8</b>	<b>3.78</b>	<b>59,034.1</b>	<b>4.16</b>
<b>E. NON-EARNING ASSETS</b>										
1. Cash and Due from Banks	40.2	54,082.0	2.29	46,631.5	39,181.0	2.41	24,066.2	1.76	17,811.9	1.25
2. Other	36.7	49,311.0	2.09	48,585.0	47,859.0	2.94	66,131.9	4.85	53,245.5	3.75
<b>F. TOTAL ASSETS</b>	<b>1,757.2</b>	<b>2,363,466.0</b>	<b>100.00</b>	<b>1,995,676.5</b>	<b>1,627,887.0</b>	<b>100.00</b>	<b>1,363,628.1</b>	<b>100.00</b>	<b>1,419,786.1</b>	<b>100.00</b>
<b>G. DEPOSITS &amp; MONEY MARKET FUNDING</b>										
1. Current Accounts	304.5	409,634.0	17.33	340,598.5	271,563.0	16.68	222,330.4	16.30	130,322.5	9.18
2. Profit/Loss Accounts	1,123.4	1,510,977.0	63.93	1,285,978.5	1,060,980.0	65.18	926,088.5	67.91	1,133,621.1	79.84
3. Other Deposits	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Interbank Deposits	n.a.	n.a.	-	n.a.	n.a.	-	63,124.4	4.63	n.a.	-
5. Other Borrowings	146.1	196,506.0	8.31	125,658.5	54,811.0	3.37	n.a.	-	n.a.	-
<b>TOTAL G</b>	<b>1,574.0</b>	<b>2,117,117.0</b>	<b>89.58</b>	<b>1,752,235.5</b>	<b>1,387,354.0</b>	<b>85.22</b>	<b>1,211,543.3</b>	<b>88.85</b>	<b>1,263,943.6</b>	<b>89.02</b>
<b>H. OTHER FUNDING</b>										
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.	-
<b>I. OTHER LIABILITIES</b>	<b>9.2</b>	<b>12,343.0</b>	<b>0.52</b>	<b>18,529.5</b>	<b>24,716.0</b>	<b>1.52</b>	<b>10,374.6</b>	<b>0.76</b>	<b>16,843.2</b>	<b>1.19</b>
<b>J. LOAN LOSS RESERVES (see A above)</b>										
<b>K. OTHER RESERVES</b>	<b>2.7</b>	<b>3,694.0</b>	<b>0.16</b>	<b>3,553.5</b>	<b>3,413.0</b>	<b>0.21</b>	<b>1,412.3</b>	<b>0.10</b>	<b>1,082.9</b>	<b>0.08</b>
<b>L. EQUITY</b>										
1. Preference shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Common equity	171.2	230,312.0	9.74	221,358.0	212,404.0	13.05	140,297.9	10.29	137,916.4	9.71
<b>TOTAL L.</b>	<b>171.2</b>	<b>230,312.0</b>	<b>9.74</b>	<b>221,358.0</b>	<b>212,404.0</b>	<b>13.05</b>	<b>140,297.9</b>	<b>10.29</b>	<b>137,916.4</b>	<b>9.71</b>
<b>M. TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,757.2</b>	<b>2,363,466.0</b>	<b>100.00</b>	<b>1,995,676.5</b>	<b>1,627,887.0</b>	<b>100.00</b>	<b>1,363,628.1</b>	<b>100.00</b>	<b>1,419,786.1</b>	<b>100.00</b>
Exchange Rate		USD1 = TRZ 1.3451			USD1 = TRZ 1.3451		USD1 = TRZ 1.3451		USD1 = TRZ 1.3451	

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

	31 Dec 2005		31 Dec 2004		31 Dec 2003		31 Dec 2002	
	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	Restated	Restated	Restated	Restated	Restated	Restated
1. Income from Financing Activities	170,852.0	9.29	143,033.0	10.58	113,826.3	9.06	116,021.2	9.96
2. Profit Share Expense	111,927.0	6.09	87,715.0	6.49	76,904.9	6.12	68,724.9	5.90
<b>3. NET FINANCING INCOME</b>	<b>58,925.0</b>	<b>3.20</b>	<b>55,318.0</b>	<b>4.09</b>	<b>36,921.4</b>	<b>2.94</b>	<b>47,296.3</b>	<b>4.06</b>
4. Net Fees & Commissions	44,917.0	2.44	27,730.0	2.05	18,937.4	1.51	19,327.0	1.66
5. Other Operating Income	21,513.0	1.17	716.0	0.05	5,830.2	0.46	511.7	0.04
6. Personnel Expenses	51,958.0	2.83	33,927.0	2.51	22,946.5	1.83	20,414.7	1.75
7. Other Operating Expenses	49,229.0	2.68	37,270.0	2.76	42,204.9	3.36	29,595.0	2.54
8. Loan Loss Provisions	6,828.0	0.37	9,832.0	0.73	12,762.2	1.02	4,892.5	0.42
<b>9. OPERATING PROFIT</b>	<b>17,340.0</b>	<b>0.94</b>	<b>2,735.0</b>	<b>0.20</b>	<b>-16,224.6</b>	<b>-1.29</b>	<b>12,232.8</b>	<b>1.05</b>
10. Other Income and Expenses	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>11. PROFIT BEFORE EXCEPTIONAL ITEMS</b>	<b>17,340.0</b>	<b>0.94</b>	<b>2,735.0</b>	<b>0.20</b>	<b>-16,224.6</b>	<b>-1.29</b>	<b>12,232.8</b>	<b>1.05</b>
12. Exceptional Items	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>13. PRE-TAX PROFIT</b>	<b>17,340.0</b>	<b>0.94</b>	<b>2,735.0</b>	<b>0.20</b>	<b>-16,224.6</b>	<b>-1.29</b>	<b>12,232.8</b>	<b>1.05</b>
14. Taxes	-717.0	-0.04	-2,932.0	-0.22	-19,559.4	-1.56	10,846.4	0.93
<b>15. Published Net Income Including Minorities</b>	<b>18,057.0</b>	<b>0.98</b>	<b>5,667.0</b>	<b>0.42</b>	<b>3,334.8</b>	<b>0.27</b>	<b>1,386.4</b>	<b>0.12</b>
16. FITCH NET INCOME	18,057.0	0.98	5,667.0	0.42	3,334.8	0.27	1,386.4	0.12

Ratio Analysis

KUVEYT TURK KATILIM BANKASI A.S (C.)

		31 Dec 2005 Original	31 Dec 2004 Restated	31 Dec 2003 Restated	31 Dec 2002 Restated
<b>I. PROFITABILITY LEVEL</b>					
1. Pre-tax Profit/Total Assets (av.)	%	0.87	0.18	-1.17	0.94
2. Net income less pref.Dividends/ Common equity(av.)	%	8.16	3.21	2.40	1.28
3. Net Income/Equity (av.)	%	8.16	3.21	2.40	1.28
4. Net Income/Total Assets (av.)	%	0.90	0.38	0.24	0.11
5. Operating Expense/Net Financing Income Other Operating Income	%	80.72	85.00	105.61	74.49
6. Net Financing Income./Total Assets (av.)	%	2.95	3.70	2.65	3.63
7. Net Financing Income Adjusted for F/X Losses/Total Assets (av.)	%	3.41	3.85	3.19	3.78
<b>II. CAPITAL ADEQUACY (year end)</b>					
1. Internal Capital Generation	%	8.09	2.97	1.71	0.48
2. Equity/Total Assets	%	9.74	13.05	10.29	9.71
3. Equity/Loans	%	13.82	19.07	15.41	15.57
4. Capital/Risks - Tier 1	%	12.40	15.40	10.46	n.a.
5. Capital/Risks - Total	%	13.27	18.60	14.50	14.00
6. Free Capital/Total Assets	%	4.73	4.34	0.51	-3.68
7. Common Equity/Total Assets	%	9.74	13.05	10.29	9.71
<b>III. LIQUIDITY (year end)</b>					
1. Liquid Assets/Deposits & Money Mkt Funding	%	25.24	23.81	25.74	33.17
2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding	%	27.52	29.38	27.67	33.36
3. Loans/Deposits & Money Mkt Funding	%	81.50	89.23	85.23	80.66
<b>IV. ASSET QUALITY</b>					
1. Loan Loss Provisions/Loans (av.)	%	0.49	0.97	1.42	0.66
2. Loan Loss Provisions/Profit before Provisions and Tax	%	28.25	78.24	-368.59	28.57
3. Loan Loss Reserves/Gross Loans	%	3.39	10.04	11.81	13.11
4. Impaired Loans/Gross Loans	%	6.52	16.74	19.72	25.97
5. Impaired Loans net/equity	%	23.44	39.03	7.70	48.74
6. Loan Loss Reserves/Impaired Loans	%	52.03	60.00	59.88	50.48
7. Impaired Assets/Total Loans and foreclosed property	%	7.16	17.44	20.63	27.32

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