JCR Eurasia Rating
"Global Knowledge Supported by Local Experience"

THE TURKISH REPUBLIC OF NORTHERN CYPRUS

Corporate Credit Rating — Banking

Update

creditwest Creditwest Bank Kıbrıs		Long-Term	Short-Term
International	Foreign Currency	BBB-	A–3
	Local Currency	BBB-	A–3
	Outlook	Stable	Stable
National	Local Rating	AA+ (Trk)	A-1+ (Trk)
	Outlook	Stable	Stable
Sponsor Support		2	-
Stand Alone		A	-
Sovereign*	Foreign Currency	BBB-	-
	Local Currency	BBB-	-
	Outlook FC	Stable	-
	Outlook LC	Stable	-

*Assigned by Japan Credit Rating Agency, JCR on May 23, 2013

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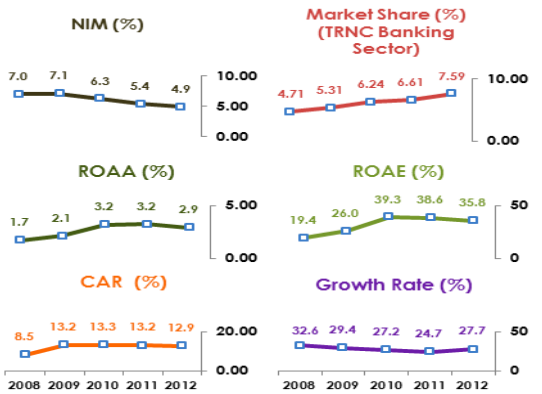


Creditwest Bank Limited					
Financial Data	**2012***	**2011***	**2010***	**2009***	**2008***
Total Assets (000 USD)	470,671	346,907	341,709	277,681	209,661
Total Assets (000 TRY)	836,665	655,272	525,412	412,995	319,061
Total Deposit (000 TRY)	725,799	543,465	408,030	313,137	258,617
Total Net Loans (000 TRY)	517,854	415,502	291,891	198,796	151,373
Equity (000 TRY)	67,037	55,389	43,649	33,145	27,127
Net Profit (000 TRY)	17,198	14,740	11,705	6,018	4,413
Market Share (%)	7.59	6.61	6.24	5.31	4.71
ROAA (%)	2.94	3.24	3.21	2.14	1.73
ROAE (%)	35.85	38.61	39.26	25.97	19.36
Equity/Assets (%)	8.01	8.45	8.31	8.03	8.50
Capital Adequacy Ratio (%)	12.93	13.15	13.34	13.19	8.48
Asset Growth Rate (Annual)(%)	27.68	24.72	27.22	29.44	32.64

* End of year

Overview

Creditwest Bank Ltd. (hereinafter Creditwest Bank or the Bank), was incorporated in the Turkish Republic of Northern Cyprus (TRNC) under the name Altınbaşbank in 1994 and transformed its name to Creditwest Bank in 2006. The Bank carries out operations through its 14 branch network in Nicosia (Lefkoşa), Famagusta (Magosa), Kyrenia (Girne) and Güzelyurt. The Bank provides modern banking services to principally privately owned enterprises as well as individuals in addition to insurance, factoring, leasing and credit card payments services via its four financial subsidiaries, Creditwest Insurance, Creditwest Finance, Creditwest Factoring and Starcard Banka Kartları Ltd.

Within the last five year period, the Bank recorded a nearly three times cumulative growth performance in assets, loans, deposits and earnings than the average sector growths thanks to its exceptional performance in all those fields.

As a result of its sound growth performance, the Bank progressively enhanced its market presence and reinforces its strong market position. The Bank's rank in assets size rose to 5th from 6th among 22 banking institutions at the end of 2012. The high collection rate and collateralization level of the non-performing loans ratio alleviate pressure to some extent, despite their relatively high ratio, in parallel with the sector.

Strengths

- Constant increase in net profit, accompanied by sound return on assets and equity ratios surpassing the sector average during the last four year period
- Retention of large proportion of endangered profits contributing to Bank equity and continuous growth
- Outperformance of the sector in assets, loans, deposits growth and booking net profit and hence progressive increase in all major segment market shares
- Satisfactory capital and liquidity level along with solid and broad deposit customer base, a significant portion of which is covered by the Savings Deposit Insurance Fund
- Allocated high loans loss provisioning and high collection rate of non-performing loans portfolio contributing to the quality of preserving assets
- Strong market position, well-established organizational structure and successful management practices

Constraints

- Short and continuous decline in average maturity profile of deposits, the Bank's main funding sources, prevalent in the TRNC banking sector
- Although banks hold substantial liquidity and credit products structures in order to reduce maturity mismatches, sector-wide structural maturity mismatches exerting pressure on liquidity management
- Sector-wide issue of high NPLs proportion as the main challenge, despite their full provisioning
- Additional global risks to be exerted by shifts in monetary policy of developed countries
- Isolated economic and political structure of the TRNC a major complication for the sector's development
- Improvements needed in corporate governance practices
- Retained decreasing trend in net interest margin will have adversities on the profitability in future

Publication Date: August 26, 2013

"Global Knowledge supported by Local Experience"

1. Rating Rationale

2012 was another prosperous year for Creditwest Bank, with a growth in assets, loans, deposits and equity. At the end of 2012, the materialized growths in assets, loans, deposits and equity were 27.68% (FY2011: 24.72%), 24.63% (FY2011: 42.35%), 33.55% (FY2011: 33.19 %) and 21.03% (FY2011: 26.90%), respectively. The Bank increased its net profit 4.29% yoy basis (according to the IFRS reporting standards the increase was 16.68%) while the TRNC baking sector's net profit contracted by 1.92% in the same period. With those outcomes, Creditwest Bank outperformed the Turkish Republic of Northern Cyprus (TRNC) banking sector in all core banking aspects as in the previous year.

Thanks to its robust growth performance, the Bank progressively enhanced its market presence without compromising its asset quality and profitability. Hence, the Bank's rank in assets size rose to 5th from 6th of 22 banking institutions at the end of 2012.

JCR Eurasia has affirmed the Bank's Long-Term National Local Rating **'AA+'** with a 'stable' outlook for the year. In addition, the Bank's Long Term International Note has been upgraded to **'BBB-'** from **'BB'** with a 'Stable' outlook in line with the upgrade in Turkey's Sovereign Rating on May 23, 2013.

JCR Eurasia recognizes that the sovereign risk of the TRNC is the same as that of the Republic of Turkey; the rating rationale of Creditwest Bank has been developed based on this assumption.

The supportive drivers of these assigned ratings are;

- Return on assets and equity ratios of 2.94% and 35.88%, respectively, in 2012, well above the TRNC banking sector averages 2.15% and 19.59%,
- High internal resources generation capacity and retention of a large portion of profit contributing to the capitalization level,
- 85.78% of the Bank's total income resulting from resilient streams and generated principally through core banking activities, which specify the maintenance of the profitability level,
- Steady increase in market share from 4.71% in 2008 to 7.59% in 2012 in the banking sector,
- Outstanding growth performance in assets, loans, deposits and increase in earnings; cumulative growth performance was nearly 3 times of the TRNC banking sector's growth in those fields over the last five year period,
- Increases in equity of 147.13% over the last five years, approximately 1.8 times the increases of the entire banking sector,
- The Capital Adequacy Ratio decreased from 13.15% in 2011 to 12.93% at the end of FY2012, above the minimum required capital threshold of 10%,
- The Bank's leverage ratio was 1,148% in 2012 (FY2011: 1,083%), above the TRNC banking sector's 816% (FY2011: 804%)
- Adequate liquidity level without funding gap or violations in 2012 with a liquid assets to total asset ratio of 23.92% (FY2011:18.75) compared to the sector's ratio of 26.82% (FY2010:24.35%),
- Short maturity structure of deposits of below three months average, prevalent in TRNC banking sector, exerting pressure on liquidity management,
- LTD ratio (loans to deposits) of 70.63%, parallel to the sector average of 70.07%, representing adequate liquidity for any unexpected funding requirements,
- Higher loan loss reserves than the sectors thanks to full provisioning,
- Improvement in non-performing loans interrupted in 2012,
- Relatively high NPLs ratios over the reviewed period, although in line with sector averages and
- High collection rate of non-performing loans portfolio,

together with well-established managerial practices along with a risk oriented management, compliance level with corporate governance principals, risk management practices, sustainable and high profit generation capacity, continuous decline in above sector average deposit maturity averages, decreasing and below sector average capital adequacy ratio, decrease in net interest margin, declining ROAA and ROAE ratios-prevalent in sector, solid and broad deposit base, remarkable increase in interest expense and sector-wide structural maturity mismatch are other factors taken into consideration in the assessment of the Bank's rating.

JCR-Eurasia's assessment is mainly based on the Bank's audited unconsolidated accounts prepared in accordance with the Financial Reporting Standards for the period. Moreover, statistics provided by the Central Bank of North Cyprus and JCR Eurasia's own studies are also utilized for this assessment.

2. Outlook

JCR-Eurasia has assigned a **"Stable"** outlook on the long and short term national ratings as well as international

ratings perspectives of Creditwest Bank, considering the sustainability of the net profit increase, broad deposit base and its granularity, the position of the Bank within the sector, adequate capitalized level, satisfactory liquidity level, moderate risk apatite and cautious management approach, relatively high but at sector average NPLs, the effects of parent company activities and growth prospects of Bank along with continuity of political and economic stability in the TRNC.

Constraining factors of the ratings are a downgrading in the sovereign rating of Turkey, deterioration in assets quality, continuous decrease in net interest margin, difficulties in accessing fund resources along with significant upsurge in interests expense, deceleration in economic activities, disruption of political stability and expansion of civil unrest in Syria covering Turkey and Turkey's neighboring countries.

Developments in both the domestic and global financial and political climate, the level of profit generated in the future, the management of the additional risks combined with the growth of the Bank, equity contribution by shareholders when required and funds maturity extension are the significant factors that will be taken into reflection for any future changes in ratings and outlook status.

3. Sponsor Support and Stand-alone

Sponsor Support notes and risk assessments reflect the financial strength and expected assistance of the ultimate shareholders, the Altınbaş Family. It is considered that the Altınbaş Family has the propensity and adequate financial strength to offer financial support when liquidity needs arise in the short or long term perspective. Furthermore, the conglomerate Group Altınbaş Holding A.Ş. carries out its operations in nine countries and its prime business activities are based in Turkey, the TRNC, Albania and Ukraine. The Holding has diversified its geographical and business risks by holding interests in mainly four different sectors i.e. energy, finance, jewellery and logistics. As of December 31, 2012, the sole asset size of the Holding was TRY 313mn and equity was TRY 206mn. Based on these assessments, the Sponsor Support note of the Bank has been determined as **"2"**, which denotes a moderate external support possibility.

The stand-alone note has been constituted particularly concerning high internal resource generation capacity, sound profitability ratios, adequate capital and liquidity levels, balance sheet structure, growth performance in all core banking activity fields, productivity and risk management practices, growing market shares, and the development of existing risks in the markets and business environment. Within this context, the Stand-Alone grade of the Bank has been determined as **"A"** in JCR Eurasia's notation system, which signifies a very strong and credible bank. The Bank is able to manage its on and off balance sheet risks successfully even if the shareholders or public authorities do not provide any assistance.

4. Company Profile

Creditwest Bank Limited, the first financial institution of the Altınbaş Family, was incorporated in the Turkish Republic of Northern Cyrus under the name Altınbaşbank in 1994 and renamed Creditwest Bank in 2006. The Bank is fully licensed to carry out all banking operations in the TRNC and provides a wide range of banking services, including deposit acceptance, the granting of corporate and retail loans and others through its fourteen branches as well as insurance, factoring, leasing and credit card payments services via its four financial affiliates.

Subsidiaries and Affiliates 2012	Bank's Share %	(000) Shareholder's Equity-TRY	(000) Total Assets-TRY	Country
Creditwest Finance Limited	48.91	8,902	14,808	TRNC
Creditwest Insurance Limited	30.00	11,733	17,985	TRNC
Starcard Banka Kartları Limited	16.67	2,182	11,862	TRNC
Creditwest Factoring A.Ş. (*)	1.01	140,869	568,255	TURKEY

(*) Quoted to Borsa Istanbul (BIST)

As of December 31 March, 2013, the Bank employed 230 staff (as of December 31, 2011: 218). In addition to the conventional services stream offered through the branch network, the Bank utilize alternative delivery channels (ADC) including ATMs and internet banking facilities to reach its customers with ease.

As of December 31, 2012, The Board of Creditwest Bank consisted of five members. Currently, the Board has seven members, two of whom are independent. In 2012, one of board members responsible for internal systems and one executive vice president resigned. Thus, the senior management team of the Bank is comprised of the CEO and three executive vice presidents. All these upper-level managers are highly educated in their respective fields.

All shares of the Bank belong to Altinbaş family members. The shareholding pattern is detailed in the following table.

Shareholders	2012 Share %	2011 Share %
Ali Altınbaş	15.83%	15.83%
Sofu Altınbaş	15.83%	15.83%
Hüseyin Altınbaş	15.83%	15.83%
Nusret Altınbaş	15.83%	15.83%
İnan Altınbaş	15.83%	15.83%
Aliye Altınbaş	5.69%	5.69%
Orkun Altınbaş	5.69%	5.69%
Sedef Altınbaş	5.69%	5.69%
Fatma S. Altınbaş	1.25%	1.25%
Serdar Altınbaş	1.25%	1.25%
Tuğçe Altınbaş	1.25%	1.25%
Total	**100.00%**	**100.00%**
Paid Capital (TRY)	**8,900,000**	**8,900,000**

5. Stability of the Financial System

The TRNC Banking System is extremely influenced by the Turkish System on which the Republic is dependent and holds close ties. All developments in the economy of Turkey are also reflected in the TRNC due to the common currency of both countries and essential assistance from Turkey.

Economic and political isolation is the fundamental issue to be overcome for the further development of the TRNC; accelerated development in this strategically located island can be expected in the event of the unification of the island and subsequent entry into the European Union.

The Turkish Republic of Northern Cyprus Banking Sector constitutes 22 institutions (2 public, 13 private and 7 branch banks) with a total of 208 branches and 2,709 employees. The sector is highly concentrated with one private bank accounting for 23.45% of the entire sector in 2012.

The Banking Sector provides services through alternative distribution channel such as internet, mobile banking services and ATMs in addition conventional banking activities. Banks in the TRNC offer credit cards, POS and swift services via Turkish Banks as the sovereign status of the TRNC is yet to be recognized.

The sector is regulated by the Central Bank of the TRNC and related figures in the sector disclosed quarterly via bulletins. On the other hand, difficulties in accessing recent annual reports, audited financial statements and some other information from the web-sites of the some Banks along with the lack of timely official statistics decrease assessment, transparency and corporate governance.

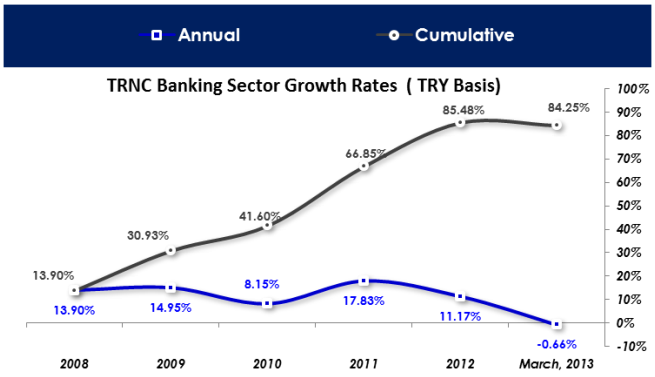
Figures related to the TRNC banking sector are provided below;

Banking Sector as of 2012	Number Of Banks	Number of Branch	Number of Stuff	Asset-TL (000.000)	CAR
Public Deposit Bank	2	34	537	3,602	23.02%
Private Deposit Banks	13	129	1,669	4,217	15.26%
Foreign Banks Branch	7	45	503	3,206	26.29%
Total	22	208	2,709	11,025	20.61%
Source: KKTCMB					

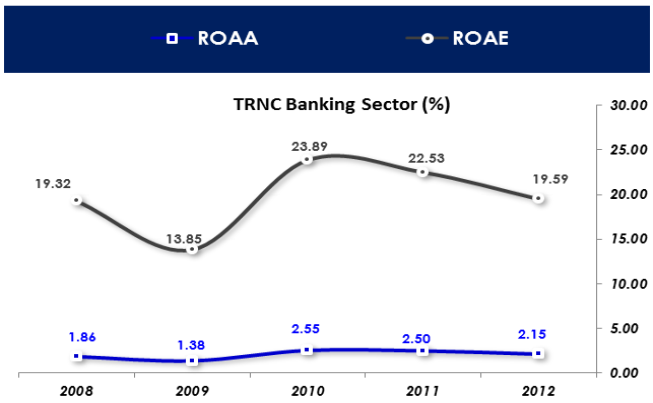
Key figures of the sector, according to the Central Bank Publication, for the period ended 2012:

- Total deposits, which compose 81.39% of total resources, increased by 10.95% and reached TRY 8.97bl,
- 76.11% of the total deposits were up to one month bracket specifies short maturity structure,
- LTD ratio (loans to deposits) was 70.07% which enables further expansion in loans book,
- Total loans of the sector recorded a growth of 16.39% and surpassed total asset growth of the sector and reached TRY 6.29bl,
- 48.22% of the total loans were granted as medium and long term,
- The 13 privately owned deposit banks had a total market share of 38.25% in asset size basis,
- The 2 public banks had an asset size market share of 32.67%
- The remaining 29.08% of the market share belonged to the seven Turkish Banks head-quartered in Turkey,
- The capital adequacy ratio of the sector was 20.61% at the end of FY2012, well over the legal requirement of 10%,
- The capital adequacy ratio of the private deposit banks, which are considered the Bank's peer group, averaged 15.26% (FY2011:15.82%),
- The Leverage ratio (total liabilities to equity) stood at 816%, similar to the previous years at 804%,
- Net profit of the sector contracted by 1.92% in 2012 and materialized at TRY177.9mn
- The top five banks constituted 57.25% of the sector's total assets

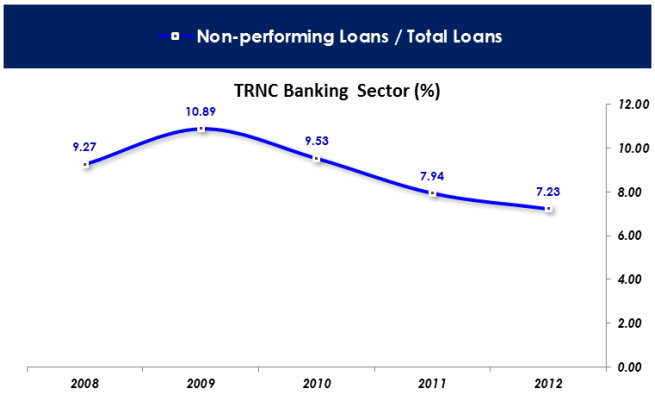
The banking sector grew cumulatively by 85.48% on TRY basis between 2008 and 2012. Compared to the previous year, the sector grew by 11.17% on TRY basis, similar to the growth rate of FY2011. The decelerations in economic activities in 2012, anticipated decrease in GDP growth to 2.4% from 3.3% FY2011depressed the growth rate. In the 1Q2013, the sector slightly contracted and these first Q's results indicate a relatively weak performance.



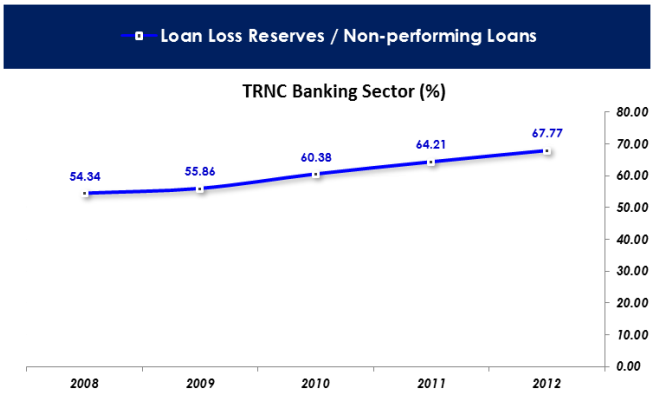
Although returns on equity and assets ratios of the banking sector attained its sound levels, they exhibited a decrease in last two consecutive years due to tapering interest margin.



The sector's ratio of non-performing loans to gross loans was 7.25% at the end of FY2012 and demonstrated continuous improvement from FY2009 thanks to robust increases in gross loans book, although the absolute values of non-performing loans increased steadily for the same period. Acceleration in economic activity and expansion in loans will reduce impairments in all types of loans and thus contribute to the improvement in loan portfolio quality.



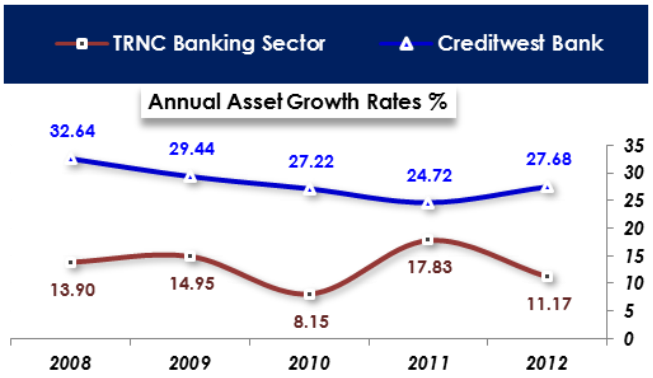
The loan provisioning ratios displayed an increasing trend over the reviewed period and materialized at 67.77% at the end of FY2012. Although the loan loss reserves ratio has tended to increase, it remained at a relatively lower level.



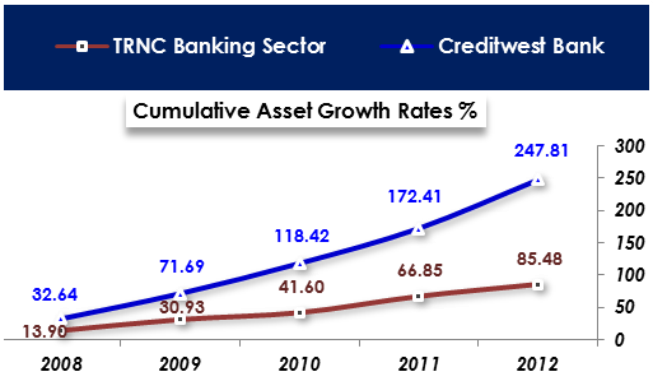
6. Financial Indicators

6.1. Performance & Profitability

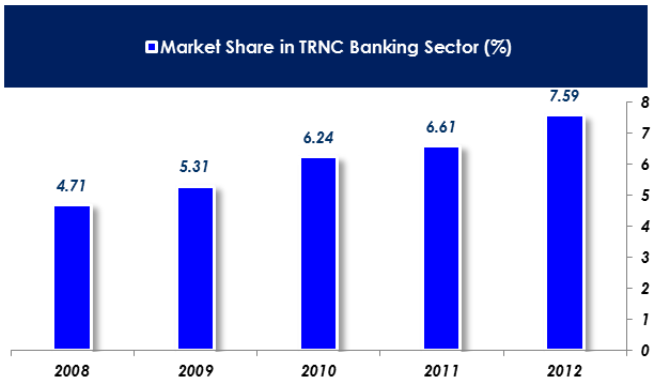
In FY2012, Creditwest Bank exhibited a 27.68% growth in total asset size, remarkably higher than the TRNC banking sector's growth rates of 11.17%. The graphs below present the growth of the Bank's asset base in comparison to the sector. Under the reviewed period the overall asset base growth performance of the Bank remained well above the sector averages.



Creditwest Bank's cumulative assets base growth performance over the reviewed period was 247.81%, 2.9 times that of the average cumulative growth of the TRNC banking sector. These outcomes reflect outstanding achievement regarding assets growth.

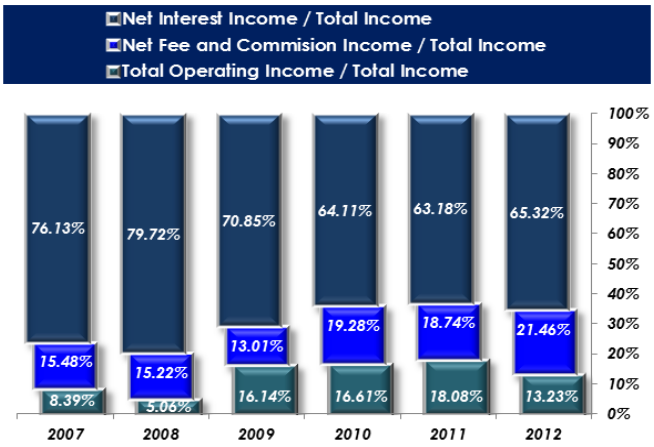


The Bank's asset size market shares amongst the 22 banks in the entire TRNC banking sector progressively increased over the reviewed period and reached 7.59% at the end of FY2012 thanks to its outstanding growth performance. The Bank's rank in assets size rose to 5th from 6th at the end of 2012. The Bank has projected a growth rate of approximately 20% in assets for the ongoing year; this is below the previous year growth rate, however, we, as JCR Eurasia, assume that the projected growth rate of the Bank will stay over that of the sector.

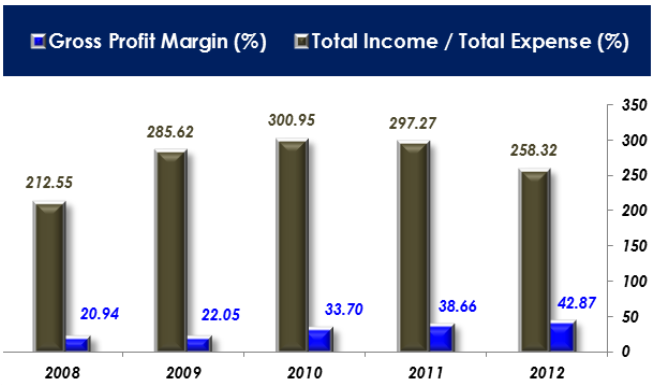


According to the audit report prepared in accordance to International Financial Reporting Standards (IFRS), Creditwest Bank booked a net profit of TRY 17.2mn in FY2012, a remarkable increase of 16.68% compared to the TRY 14.74mn net profit of FY2011. Furthermore, the Bank increased its net profit by 4.29 in 2012 according to financial reports submitted to North Cyprus Central Bank. In the same period, the sectors' net profit figures were slightly contracted by 1.92%. These figures specify better performance than the sector.

As of December 31, 2012, 64.32%, 21.46% and 13.23% of total income was contributed by net interest income, net fee & commission income and operating income, respectively. 85.78% of the Bank's total income derived from sustainable streams and was engendered mainly through core banking activities, which state the maintenance of the profitability level. Similar to the banking sector as a whole, net interest income was the Bank's primary source of total profit.

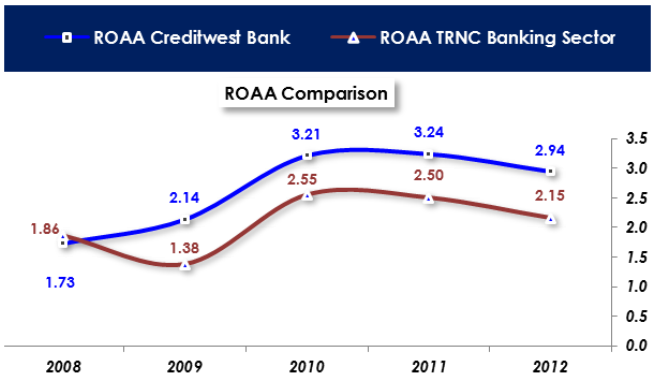


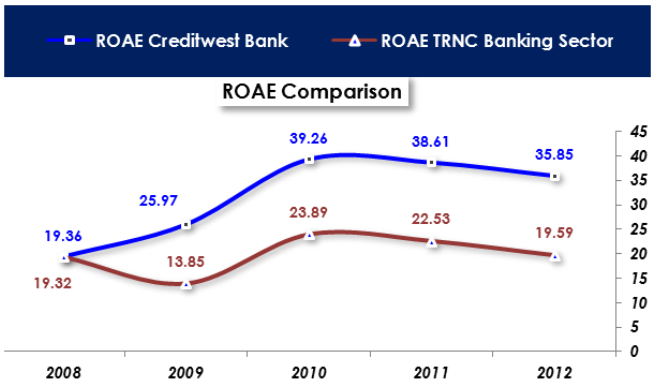
Although the Bank's gross profit margin demonstrates continuous improvement, the coverage of total income to total expense ratio fluctuated over the reviewed period. The total income to total expense ratio displayed significant decrease in 2012 due to a higher increase in total expense mainly resultant of the increase in interest expense of 42.21% over the increase of 27.69% cost bearing liabilities. In the same period total income of the bank increased just 4.25%, resulting from a lower increase of 13.56% in total earning assets along with an exceptional increase of 565% in total non-earning assets. As part of a cautious management policy, the Bank has attached crucial importance to liquidity due to the on-going economic stress in particularly developed countries and the Europe Union along with weak global growth expectations. We, as JCR Eurasia, assume that when the Bank reverses the funds in non- earning assets to earning assets, the total income to total expense ratio will upsurge.



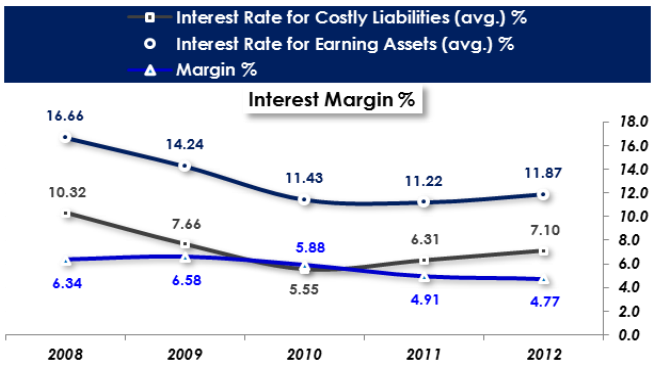
The Banks' key profitability indicators of return on assets and equity ratio decreased to 2.94% and 35.85% in FY2012 from 3.24% and 38.61%, respectively. Despite

this slight decrease, the Bank has attained higher ratios at sound levels. The ROAA and ROAE ratios demonstrated a similar pattern with the sector during the reviewed period. However, the Bank frankly outperformed the sector in last four years.





Both the average interest rates of the Bank's earning assets and cost bearing resources fluctuated in a similar path under the reviewed period. The contraction in interest margin was continued in 2012 and fell to the lowest level of 4.77%. The importance of the net fee and commission income will increase in circumstances of continuing shrinking interest margins. Thus, the Bank increased its net fee and commission income by 19.38% yoy basis and its share in total income increased to 21.46% from 18.74% in 2011.



6.2. Risk Management

The Board of Directors has the overall responsibility for establishing and supervising the Bank's risk management framework. The Bank's risk management policies are reviewed periodically and, according to the requirements, necessary changes or implementations are made. The credit, market, liquidity and operational risks are executed under the created risk management frame.

The Bank has set up Internal Audit, Internal Control & Risk Monitoring and Compliance Departments in line with regulations on Internal Control, Risk Management and Audit and Management Systems in Banks along with Credit, Assets and Liabilities, Internal System, Repurchase & Selling, Disciplinary, Education and Marketing Committees.

The Bank executes its credit risk by determining loan limits for customers and customer groups as well as defining limits for sectors. The defining limits for sectors are closely monitored on a daily and monthly basis. Risk concentrations are also analyzed periodically. The Bank is not allowed an exposure of more than 20% in each sector and cannot allocate credit limits to each loans customer or customer group of more than 25% of its equity or 4% of its deposit base.

Customer credit limits are assigned by the General Manager, the Credit Committee and the Board of Directors under the rules set by the Board. The Bank continuously monitors the credit assessment of its customers, takes necessary precautions, and allocated loans limit are periodically reviewed. Credit limit reviews are done as deemed necessary due to changes in overall economic conditions.

At the end of FY2012, granted loans and advances to customers demonstrate an increase of 26.11%, over the sector's loans increase of 16.39%. Approximately 54% of total outstanding loans were allocated as retail loans which alleviate the credit risk concentration due to granulation of the loans. The Bank's largest 100 cash loans constituted 31.40% (FY2011: 29.50%) of the total outstanding cash loan portfolio while the largest 100 non-cash loans composed 92.36% (FY2011: 94.83%) of the total non-cash loan portfolio. Although the credit concentration in non-cash loans appears high, the Bank's total off balance sheet liabilities tended to decrease over the reviewed period and in absolute value- off balance liabilities accounted for 7.41% of the total assets. As a result, we, as JCR Eurasia, assume that concentration in the commitments and contingent liabilities have not endangered important negative effects on the Bank's balance sheet structure. The Bank closely monitors its credit risk concentrations and the

above figures indicate the Bank's risk concentration in cash loans was in acceptable range.

The Treasury Department of the Bank manages market risk aligned with rules set by the Board of Directors while the Risk Management Department of the Bank closely monitors market risk as well. Transaction, trading and dealer limits are defined and approved by the Board of Directors. These limits and risks are continuously monitored and reviewed in Board of Directors meetings held every month in line with the Bank's strategy and requirement of the changes in market conditions. In addition, the Bank carries out stress tests to assess its market risks.

The Bank has not targeted to generate income carrying foreign currency position and forward transactions. Generally, an attempt is made to balance foreign currency assets and liabilities. A foreign position depending on the market fluctuations is kept under both legal requirement and BoD regulations.

In the scope of market risk, the Bank is principally exposed to interest rate and currency exchange movement risks. The Bank's foreign currency risk exposure is restricted. The Bank was long in Euro and USA denominated liabilities and uses derivatives instruments to hedge against foreign currency risk. Therefore, the Bank's total foreign currency position to assets and equity ratios were 0.30% and 3.80%, respectively, at the end of FY2012. These rates attest to the negligibility of the Bank's foreign currency risk.

Within the context of capital adequacy, the Bank's market risk is calculated on a monthly basis according to the 'Standard Method' and periodically reported to the Board of Directors.

Creditwest Bank executes and monitors its liquidity risk and takes appropriate and timely measures in case of any liquidity crises which may arise from market conditions or the Bank's own balance sheet structure. Asset and Liabilities management strategies aim to control and eliminate the maturity mismatch.

The Bank met its short term liquidity needs mainly through customer deposits and the interbank market; its long term liquidity needs are provided through customer deposits and equity.

The liquidity gap of up to three months which is characteristic in the TRNC Banking Sector also prevails for the Bank. On the other hand, the Bank has an excess of liquidity up to one month and over one year maturities.

Although the short maturity structures of the deposits, the Bank's main funding source, exert adversities on liquidity management, the lower loan to deposit ratio alleviates liquidity needs and presents an opportunity for further growth.

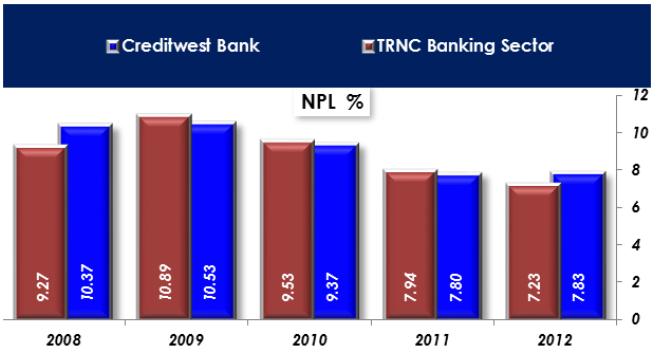
As in the previous year, the Bank placed approximately 42% of its total assets in the one year and over one year maturity bracket, 2.08% of its total liabilities were funded by over one year maturity based resources with the exception of its equity. Due to maturity mismatch between the assets and liabilities, the Bank has not faced any liquidity crisis during the last year.

To minimize operational risk and its potential impact, the Bank attaches importance to implementing human resources, technological infrastructure, network security, back up and disaster recovery policies. Furthermore, the Bank has set up efficient internal audit, internal control and risk management systems within the framework of legal regulations.

According to the management, the Bank did not face any considerable operational risks, occurring principally from human errors, fraud, embezzlement, system errors & failure as well as other external events such as earthquake, floods, terrorist attacks and fire in FY2012.

6.3. Asset Quality

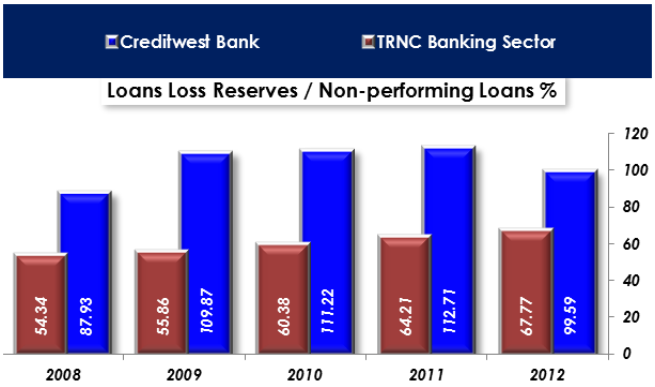
The non-performing loans ratio is an explicit indicator of asset quality. Hence, the lower NPLs ratio reflects the asset quality. Over the period reviewed, the NPLs to gross loans ratios in both the Bank and the Sector displayed a similar decreasing pattern. At the end of FY2012, the NPLs ratio of the Bank was 7.83% and almost flat compared to the previous year.



During FY2012, TRY18.59mn of loans was added to the non-performing loans portfolio and TRY 11.8mn written off the portfolio due to collection. Furthermore, 82.34% of the overdue loans, which were classified as uncollectible loans,

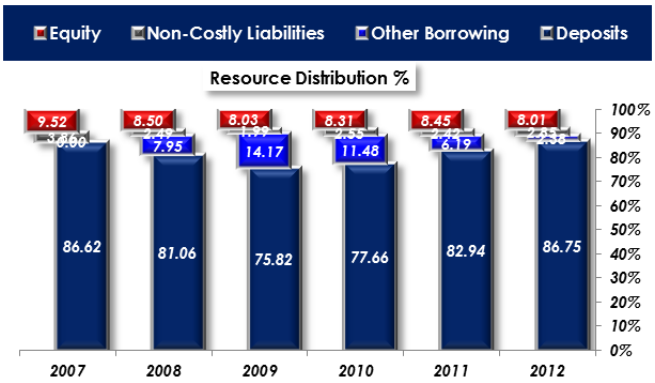
were collateralized. High collection rate of non-performing loans and collateralized level specify the effective loans management.

The Bank's provisions for non-performing loans ratio reached its highest level in 2011 and remained over 100% provisioning with the exception of FY2008 and 2012. These ratios were noticeably over those of the sector and are positively assessed from the point of view of continuing asset quality.



6.4. Funding

Creditwest Bank largely meets its funding needs through time and demand deposits (both TRY and FC denominations), borrowing funds from financial institution and shareholders' equities.



As conventional funding sources, deposit accounts held the largest share in the Bank's source dispersion with an average rate of 81.81% between FY2007 and FY2012. At the end of FY2012, TRY denominated deposits accounted for 68.27% (FY2011: 67.97%) of the total deposit of the Bank, with the remaining comprised of FC deposit.

The average maturity of the deposit base was 66 days, which was very short, although somewhat above the TRNC banking sector average at 54 days.

90.05% of the total deposit was saving deposit and 88.31% of the total savings deposit was covered by the Savings Deposit Insurance Fund (FY2011: 97.57%). This high proportion indicates the Bank's broad customer deposit base as well as its granularity which relieves the liquidity management of the Bank.

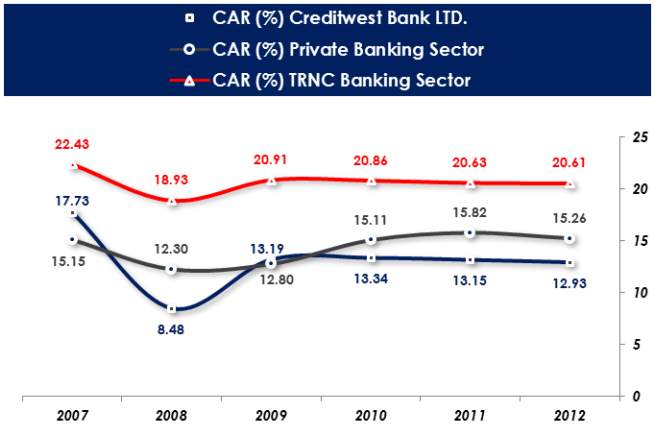
The Bank's total deposits were increased by 33.55% in FY2012, over the sector's deposit increase of 10.49%, similar to the previous year. With this outcome, the Bank increased its deposit base market to 7.75% from 6.41% in 2011.

The Bank had no borrowings from international markets through securitization, syndication loans nor direct loans due to isolated economic and political structure of TRNC.

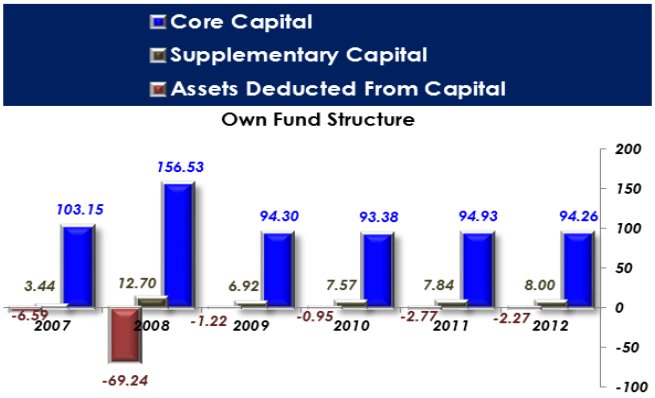
6.5. Adequacy of Capital

As of December 31, FY2012, the Bank's CAR was calculated as 12.93%. Despite the Bank's high internal resources generation capacity and retention of a large portion of profit, the capital adequacy ratio demonstrated a slight decrease in last two consecutive years, resulting in the sound growth of loans.

The CAR ratio stood markedly above the minimum CAR requirements set by the Basel Accord (8%) and legal requirement of 10%. However, it remained below the averages of the banking sector over the reviewed period and of the private banking sector at the last three years.



Core Capital is the principal measure of a bank's financial strength. Creditwest's core capital to own funds ratio was 94.26% at the end of FY2012, slightly decreased from 94.93% FY2011. It principally consisted of paid-up capital and retained earnings. The Tier 1 capital ratio, equal to core capital/total risk weighted assets, indicates capital adequacy levels and loss compensation capacity. The Bank's Tier 1 capital ratio was 12.19% FY2012.



6.6. Projection

Creditwest Bank has projected a growth of 19.71% in asset size, 24.95% in loans, 15.98% in deposits and 31.34% in equity base with an increase of 35.29% in net profit. These objectives are presumed to be achievable considering the past prosperous performance of the Bank.

As of March 31, 2013, the Bank booked a net profit of TRY 6.5mn according to the unaudited financials. Although this net profit figure corroborates that the 2013's projected net profit is realizable, the growth performance in deposits, loans and assets are relatively weak.

Projected-Balance Sheet TRY	FYE 2012-Actual	FYE 2013P	Change %
Total Assets (mn)	837	1,002	19.71
Total loans (mn)	513	641	24.95
Total Deposits (mn)	726	842	15.98
Shareholder's Equity (mn)	67	88	31.34
Net Profit (mn)	17	23	35.29

7. Corporate Governance

Creditwest Bank carries out its operations under the Banking Law dated 23 December, 2001 and regulations by the Central Bank of the TRNC. Although the Bank's shares are not publicly traded, a Corporate Structuring Committee was set up to execute institutionalization efforts of the Bank. The Committee aims to raise the corporate awareness of the institution and its employees and the Bank's compliance level with corporate governance best practices as set by the Turkish Banking Regulation and Supervision Agency (BRSA) and Turkish Capital Market Board (CMB) along with internationally accepted practices. In this scope, the Bank discloses its mission, vision, strategy, Board of Directors structure, annual reports and periodic independent audit reports through its web site.

On the other hand, the major deficiencies with regards to internationally accepted practices and regulation of the Turkish Capital Market is the non-disclosure of articles of association, dividend distribution policy, information policy, ethical rules, comprehensive corporate social responsibility policy, organization chart and a stakeholder's policy.

The stakeholder's rights are protected in the general legal frame work. Furthermore, the Bank has set up a disciplinary and education committee to secure and improve employee rights. The Bank responds to requests, complaints and suggestions of customers and stakeholders through comments and suggestions section on its web page.

All shares of Creditwest Bank are owned by Altınbaş family members. Thus, there is no disclosed regulation of shareholders rights and no sense in reality due to shareholders structure.

The Bank's compliance level with Corporate Governance principals is slightly higher when compared to the sector, however the compliance level of the TRNC Banking sector is relatively low compared to the best practices of the principles. Hence, The Bank should increase its efforts to comply with the best practices of corporate governance principles.

Creditwest Bank BALANCE SHEET - ASSET (000)	FYE 2012 USD (Converted)	FYE 2012 TRY (Original)	FYE 2012 TRY (Average)	FYE 2011 TRY (Original)	FYE 2011 TRY (Average)	FYE 2010 TRY (Original)	FYE 2010 TRY (Average)	FYE 2009 TRY (Original)	As % of 2012 Assets (Original)	As % of 2011 Assets (Original)	As % of 2010 Assets (Original)	FYE 2012 Growth Rate %	FYE 2011 Growth Rate %	FYE 2010 Growth Rate %
A- TOTAL EARNING ASSETS (I+II+III)	**406,396**	**722,410**	**679,293**	**636,175**	**572,517**	**508,859**	**454,719**	**400,579**	**86.34**	**97.09**	**96.85**	**13.56**	**25.02**	**27.03**
I- LOANS AND LEASING RECEIVABLES (net)	**291,322**	**517,854**	**466,678**	**415,502**	**353,696**	**291,891**	**245,343**	**198,796**	**61.90**	**63.41**	**55.55**	**24.63**	**42.35**	**46.83**
a) Short Term Loans	94,388	167,783	160,220	152,657	132,226	111,796	95,777	79,758	20.05	23.30	21.28	9.91	36.55	40.17
b) Lease Assets	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Medium & Long Term Loans	193,905	344,685	301,523	258,361	218,013	177,665	146,852	116,040	41.20	39.43	33.81	33.41	45.42	53.11
d) Over Due Loans	24,756	44,006	39,775	35,544	33,040	30,536	27,101	23,666	5.26	5.42	5.81	23.81	16.40	29.03
e) Others	2,929	5,206	7,104	9,001	7,429	5,857	5,596	5,334	0.62	1.37	1.11	-42.17	53.67	9.81
f) Receivable from Customer due to Brokerage Activities	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	-24,655	-43,826	-41,944	-40,061	-37,012	-33,963	-29,983	-26,002	-5.24	-6.11	-6.46	9.40	17.96	30.62
II- OTHER EARNING ASSETS	**91,335**	**162,357**	**161,298**	**160,238**	**144,931**	**129,624**	**114,690**	**99,755**	**19.41**	**24.45**	**24.67**	**1.32**	**23.62**	**29.94**
a) Balance With Banks -Time Deposits	7,660	13,616	33,989	54,361	55,133	55,905	46,469	37,033	1.63	8.30	10.64	-74.95	-2.76	50.96
b) Money Market Placements	0	0	0	0	7	13	62	111	n.a	n.a	0.00	n.a	-100.00	-87.97
c) Reserve Deposits at CB	30,957	55,030	50,091	45,152	39,610	34,069	30,459	26,850	6.58	6.89	6.48	21.88	32.53	26.89
d) Balance With CB- Demand Deposits	52,718	93,711	77,218	60,725	50,181	39,637	37,699	35,761	11.20	9.27	7.54	54.32	53.20	10.84
III- SECURITIES AT FAIR VALUE THROUGH P/L	**23,739**	**42,199**	**51,317**	**60,435**	**73,890**	**87,345**	**94,686**	**102,028**	**5.04**	**9.22**	**16.62**	-30.17	-30.81	-14.39
a) Treasury Bills and Government Bonds	22,309	39,656	48,815	57,974	71,383	84,792	93,410	102,028	4.74	8.85	16.14	-31.60	-31.63	-16.89
b) Other Investment	1,413	2,512	2,480	2,447	2,500	2,553	1,276	0	0.30	0.37	0.49	2.63	-4.13	n.a
c) Repurchase Agreement	18	32	23	14	7	0	0	0	0.00	0.00	n.a	127.76	n.a	n.a
B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE	**1,268**	**2,254**	**2,254**	**2,254**	**1,671**	**1,087**	**1,087**	**1,087**	**0.27**	**0.34**	**0.21**	**0.00**	**107.45**	**0.00**
a) Investments in Associates (Net)	1,268	2,254	2,254	2,254	1,671	1,087	1,087	1,087	0.27	0.34	0.21	0.00	107.45	0.00
b) Equity Share	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
C- NON-EARNING ASSETS	**63,007**	**112,000**	**64,421**	**16,842**	**16,154**	**15,466**	**13,398**	**11,330**	**13.39**	**2.57**	**2.94**	**565.00**	**8.90**	**36.51**
a) Cash and Cash Equivalents	4,416	7,849	5,973	4,098	3,462	2,826	2,866	2,906	0.94	0.63	0.54	91.54	45.03	-2.78
b) Balance With Banks - Current Accounts	46,659	82,941	43,320	3,698	3,381	3,063	1,532	0	9.91	0.56	0.58	2,142.96	20.71	n.a
c) Financial Assets at Fair Value through P/L	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Accrued Interest from Loans and Lease	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
e) Other	11,932	21,210	15,128	9,047	9,312	9,577	9,000	8,423	2.54	1.38	1.82	134.45	-5.54	13.69
- Intangible Assets	0	0	0	0	0	0	0	0	0.00	n.a	n.a	n.a	n.a	n.a
- Property and Equipment	5,597	9,949	8,946	7,944	8,344	8,745	8,331	7,918	1.19	1.21	1.66	25.25	-9.16	10.44
- Deferred Tax	62	110	202	295	147	0	0	0	0.01	0.04	n.a	-62.61	n.a	n.a
- Other	6,273	11,151	5,980	808	820	832	669	505	1.33	0.12	0.16	1,279.53	-2.88	64.73
TOTAL ASSETS	**470,671**	**836,665**	**745,968**	**655,272**	**590,342**	**525,412**	**469,204**	**412,995**	**100.00**	**100.00**	**100.00**	**27.68**	**24.72**	**27.22**

Creditwest Bank BALANCE SHEET LIABILITIES & SHAREHOLDERS' EQUITY (000)	FYE 2012 USD (Converted)	FYE 2012 TRY (Original)	FYE 2012 TRY (Average)	FYE 2011 TRY (Original)	FYE 2011 TRY (Average)	FYE 2010 TRY (Original)	FYE 2010 TRY (Average)	FYE 2009 TRY (Original)	As % of 2012 Assets (Original)	As % of 2011 Assets (Original)	As % of 2010 Assets (Original)	FYE 2012 Growth Rate %	FYE 2011 Growth Rate %	FYE 2010 Growth Rate %
A- COST BEARING RESOURCES (I+II)	**419,526**	**745,750**	**664,889**	**584,027**	**526,192**	**468,356**	**420,000**	**371,644**	**89.13**	**89.13**	**89.14**	**27.69**	**24.70**	**26.02**
I- DEPOSIT	**408,303**	**725,799**	**634,632**	**543,465**	**475,747**	**408,030**	**360,583**	**313,137**	**86.75**	**82.94**	**77.66**	**33.55**	**33.19**	**30.30**
a) TRY Deposit	272,700	484,752	426,634	368,516	312,171	255,826	223,141	190,455	57.94	56.24	48.69	31.54	44.05	34.32
b) FC Deposit	126,755	225,319	199,474	173,629	159,251	144,874	127,214	109,555	26.93	26.50	27.57	29.77	19.85	32.24
c) FC & LC Banks Deposits	8,848	15,729	8,525	1,321	4,325	7,329	10,228	13,127	1.88	0.20	1.39	1,091.04	-81.98	-44.17
II- BORROWING FUNDING LOANS & OTHER	**11,223**	**19,951**	**30,256**	**40,562**	**50,444**	**60,327**	**59,417**	**58,507**	**2.38**	**6.19**	**11.48**	**-50.81**	**-32.76**	**3.11**
a) Borrowing From Domestic Market	11,223	19,951	2,905	33,684	22,166	10,649	6,290	1,930	2.38	5.14	2.03	-40.77	216.31	451.76
b) Borrowing From Overseas Markets	0	0	0	0	0	0	0	0	n.a.	n.a	n.a	n.a	n.a.	n.a
c) Borrowing from Interbank	0	0	3,439	6,878	6,256	5,633	3,566	1,499	n.a	1.05	1.07	-100.00	22.10	275.77
d) Securities Sold Under Repurchase Agreements	0	0	0	0	22,022	44,044	49,561	55,078	n.a	n.a	8.38	n.a	-100.00	-20.03
e) Subordinated Loans & Others	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
B- NON-COST BEARING RESOURCES	**13,432**	**23,877**	**19,866**	**15,855**	**14,631**	**13,407**	**10,807**	**8,207**	**2.85**	**2.42**	**2.55**	**50.59**	**18.27**	**63.36**
a) Provisions	2,157	3,834	3,980	4,127	2,063	0	0	0	0.46	0.63	n.a	-7.09	n.a	n.a
b) Current & Deferred Tax Liabilities	0	0	0	0	1,599	3,199	2,229	1,260	n.a	n.a	0.61	n.a	-100.00	153.91
c) Trading Liabilities (Derivatives)	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Other Liabilities	11,275	20,043	15,886	11,729	10,968	10,208	8,577	6,947	2.40	1.79	1.94	70.89	14.90	46.94
C- TOTAL LIABILITIES	**432,959**	**769,627**	**684,755**	**599,883**	**540,823**	**481,763**	**430,807**	**379,851**	**91.99**	**91.55**	**91.69**	**28.30**	**24.52**	**26.83**
E- EQUITY	**37,712**	**67,037**	**61,213**	**55,389**	**49,519**	**43,649**	**38,397**	**33,145**	**8.01**	**8.45**	**8.31**	**21.03**	**26.90**	**31.69**
a) Prior Year's Equity	31,160	55,389	49,519	43,649	38,397	33,145	30,136	27,127	6.62	6.66	6.31	26.90	31.69	22.18
b) Equity (Added From Internal & External Resources At This Year)	-3,122	-5,550	-4,275	-3,000	-2,100	-1,200	-600	0	-0.66	-0.46	-0.23	85.01	150.00	n.a
c) Profit & Loss	9,675	17,198	15,969	14,740	13,222	11,705	8,861	6,018	2.06	2.25	2.23	16.68	25.93	94.50
d) Minority Interest	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**470,671**	**836,665**	**745,968**	**655,272**	**590,342**	**525,412**	**469,204**	**412,995**	**100.00**	**100.00**	**100.00**	**27.68**	**24.72**	**27.22**
	USD Rates 1=TRY	**1.7776**		**1.8889**		**1.5376**		**1.4873**						

Creditwest Bank INCOME STATEMENT (000) TRY	FY 2012	FY 2011	FY 2010
Net Interest Income	**33,431.18**	**31,019.01**	**28,677.39**
a) Interest Income	80,642.42	64,217.34	51,983.52
b) Interest Expense	47,211.25	33,198.33	23,306.13
Net Fee and Commission Income	**10,983.10**	**9,199.98**	**8,623.50**
a) Fee and Commission Income	11,578.16	9,774.21	9,135.49
b) Fee and Commission Expense	595.06	574.23	511.99
Total Operating Income	**6,769.91**	**8,878.92**	**7,428.77**
Net trading income (+/-)	402.77	-358.30	1,164.85
Foreign Exchange Gain or Loss (net) (+/-)	2,450.51	2,427.29	1,359.75
Gross Profit from Retail Business	0.00	0.00	0.00
Premium income from insurance business	0.00	0.00	0.00
Income on Sale of Equity Participations and Consolidated Affiliates	0.00	0.00	0.00
Gains from Investment Securities (Net)	0.00	0.00	0.00
Other Operating Income	4,068.38	5,644.42	4,993.28
Taxes other than Income	-175.62	-157.45	-89.10
Dividend	23.87	1,322.96	0.00
Provisions	**9,426.20**	**13,698.86**	**14,792.21**
Provision for Impairment of Loan and Trade Receivables	9,426.20	13,698.86	14,792.21
Other Provision	0.00	0.00	0.00
Total Operating Expense	**19,814.45**	**16,278.22**	**14,862.65**
Salaries and Employee Benefits	14,397.72	12,014.60	10,945.74
Depreciation and Amortization	1,411.27	1,161.76	1,217.68
Other Expenses	4,005.46	3,101.86	2,699.23
Profit from Operating Activities before Income Tax	**21,943.54**	**19,120.82**	**15,074.81**
Income Tax – Current	4,745.16	4,380.75	3,418.57
Income Tax – Deferred	0.00	0.00	-48.39
Net Profit for the Period	**17,198.39**	**14,740.07**	**11,704.62**
Total Income	**51,184.19**	**49,456.20**	**44,729.67**
Total Expense	**19,814.45**	**16,636.52**	**14,862.65**
Provision	**9,426.20**	**13,698.86**	**14,792.21**
Pre-tax Profit	**21,943.54**	**19,120.82**	**15,074.81**

Creditwest Bank FINANCIAL RATIOS %	FY 2012	FY 2011	FY 2010
I. PROFITABILITY & PERFORMANCE			
1. ROA - Pretax Profit / Total Assets (avg.)	2.94	3.24	3.21
2. ROE - Pretax Profit / Equity (avg.)	35.85	38.61	39.26
3. Total Income / Equity (avg.)	83.62	99.87	116.49
4. Total income / Total Assets (avg.)	6.86	8.38	9.53
5. Provisions / Total Income	18.42	27.70	33.07
6. Total Expense / Total Liabilities (avg.)	2.89	3.08	3.45
7. Net Profit for the Period / Total Assets (avg.)	2.31	2.50	2.49
8. Total Income / Total Expenses	258.32	297.27	300.95
9. Non Cost Bearing Liabilities + Equity- Non Earning Assets / Total Assets	-2.52	8.30	7.92
10. Non Cost Bearing Liabilities - Non Earning Assets / Total Assets	-10.53	-0.15	-0.39
11. Total Operating Expenses / Total Income	38.71	32.91	33.23
12. Net Interest Margin	4.92	5.42	6.31
13. Operating ROAA (avg.)	9.27	8.86	8.18
14. Operating ROAE (avg.)	112.97	105.65	99.96
15. Interest Coverage – EBIT / Interest Expenses	146.48	157.60	164.68
16. Net Profit Margin	33.60	29.80	26.17
17. Gross Profit Margin	42.87	38.66	33.70
18. Market Share in Entire Banking System	7.59	6.61	6.24
19. Growth Rate	27.68	24.72	27.22
II. CAPITAL ADEQUACY (year-end)			
1. Equity Generation / Prior Year's Equity	-10.02	-6.87	-3.62
2. Internal Equity Generation / Previous Year's Equity	31.05	33.77	35.31
3. Equity / Total Assets	8.01	8.45	8.31
4. Core Capital / Total Assets	7.86	8.46	8.05
5. Supplementary Capital / Total Assets	0.67	0.70	0.65
6. Tier 1 / Total Risk Weighted Assets	12.19	12.49	12.45
7. Capital / Total Assets	8.52	9.15	8.70
8. Own Fund / Total Assets	8.33	8.91	8.62
9. Standard Capital Adequacy Ratio	12.93	13.15	13.34
10. Surplus Own Fund	38.11	39.18	40.02
11. Free Equity / Total Assets	6.55	6.90	6.44
12. Equity / Total Guarantees and Commitments + Equity	51.94	45.08	39.04
III. LIQUIDITY (year-end)			
1. Liquidity Management Success (On Demand)	84.52	91.69	94.79
2. Liquidity Management Success (Up to 1 Month)	97.05	96.18	95.41
3. Liquidity Management Success (1 to 3 Months)	74.32	74.16	87.88
4. Liquidity Management Success (3 to 6 Months)	92.78	96.92	84.55
5. Liquidity Management Success (6 to 12 Months)	97.69	99.31	98.77
6. Liquidity Management Success (Over 1 Year & Unallocated)	83.22	82.52	81.01
IV. ASSET QUALITY			
1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	7.80	8.79	10.42
2. Total Provisions / Profit Before Provision and Tax	30.05	41.74	49.53
3. Non-performing Loans / Gross Loans	7.83	7.80	9.37
4. Non-performing Loans / Equity	65.64	64.17	69.96
5. Loss Reserves for Loans / Non-performing Loans	99.59	112.71	111.22
6. Total FX Position / Total Assets	0.30	0.31	0.12
7. Total FX Position / Equity	3.80	3.65	1.46
8. Assets / Total Guarantees and Commitments + Assets	93.10	90.66	88.52

creditwest Creditwest Bank Kıbrıs		The Historical Development of the Company's Credit Rating Notes									
		December 14, 2009		August 16, 2010		July 27, 2011		July 27, 2012		August 23, 2013	
		Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
International	Foreign Currency	BB-	B	BB	B	BB	B	BB	B	BBB-	A-3
	Local Currency	BB-	B	BB	B	BB	B	BB	B	BBB-	A-3
	Outlook	Positive	Positive	Stable	Stable	Stable	Stable	Positive	Stable	Stable	Stable
National	Local Rating	AA- (Trk)	A-1+ (Trk)	AA (Trk)	A-1+ (Trk)	AA (Trk)	A-1+ (Trk)	AA+ (Trk)	A-1+ (Trk)	AA+(Trk)	A-1+ (Trk)
	Outlook	Positive	Positive	Stable	Stable	Positive	Stable	Stable	Stable	Stable	Stable
Sponsor Support		2	-	2	-	2	-	2	-	2	-
Stand Alone		A	-	A	-	A	-	A	-	A	-
Sovereign*	Foreign Currency	BB-	-	BB	B	BB	B	BB	B	BBB-	-
	Local Currency	BB-	-	BB	B	BB	B	BB	B	BBB-	-
	Outlook	Stable	-	Stable	Stable	Stable	Stable	Stable	Stable	Stable	-
		(*):Affirmed by JCR on June 04, 2009		(*):Affirmed by JCR on February 01, 2010		(*):Affirmed by JCR on February 21,2011		(*):Affirmed by JCR on June 28,2012		(*):Affirmed by JCR on May 23,2013	