

KUVEYT TÜRK EVKAF F NANS KURUMU A. .

**CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2002
TOGETHER WITH AUDITOR'S REPORT**

AUDITOR'S REPORT

To the Board of Directors of
Kuveyt Türk Evkaf Finans Kurumu A. .

1. We have audited the accompanying consolidated balance sheet of Kuveyt Türk Evkaf Finans Kurumu A. . (the "Institution") at 31 December 2002 and the related consolidated statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the Turkish lira at 31 December 2002. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As discussed in Note 8, as of 31 December 2002 the Institution is engaged in a lawsuit with the tax office with respect to the tax obligations amounting to TL5,301 billion arising from export intermediary services carried out in 1995. Following the decision of the Tax Court, the Institution has appealed to the Supreme Court, but also made a payment to the tax office amounting to TL5,301 billion in 2002, which is recorded in "transitory accounts" under "other assets" in the accompanying consolidated financial statements. No provision has been established in the accompanying financial statements with regard to this lawsuit as the Institution's management believes that the Supreme Court's decision will probably be in favour of the Institution.
4. As discussed in Note 21, a number of lawsuits with a total value of approximately US\$1.6 million (TL2,600 billion) have been brought against the Institution with respect to non-compliance with Law No. 1567 "Law on Protection of the Value of Turkish Lira" in the conducting of export intermediary services in 1998. No provision has been established in the accompanying consolidated financial statements with regard to these lawsuits.

5. In our opinion, except for the effects of the matters discussed in paragraphs 3 and 4 above, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Evkaf Finans Kurumu A. . at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ba aran Nas Serbest Muhasebeci
Mali Mü avirlik Anonim irketi
a member of
PricewaterhouseCoopers

Haluk Yalç n, SMMM

Istanbul, 25 April 2003

KUVEYT TÜRK EVKAF F NANS KURUMU A. .

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2002

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KUVEYT TÜRK EVKAF F NANS KURUMU A. .

CONSOLIDATED BALANCE SHEETS

AT 31 DECEMBER

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

| | Notes | 2002 | 2001 |
|--|-------|------------------|----------------|
| ASSETS | | | |
| Cash and due from banks | 3 | 214,113 | 259,770 |
| Blocked accounts at the Central Bank of Turkey | 4 | 95,098 | 90,906 |
| Available-for-sale securities | 5 | 1,708 | 1,899 |
| Due from financing activities | 6 | 461,255 | 335,322 |
| Investment in finance leases | 7 | 192,058 | 125,621 |
| Other assets | 8 | 27,569 | 24,110 |
| Construction projects | 9 | 11,677 | 12,959 |
| Property and equipment | 10 | 43,535 | 18,393 |
| Intangible assets | | 20 | 17 |
| Deferred tax asset | 13 | - | 7,173 |
| Total assets | | 1,047,033 | 876,170 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Due to other financial institutions | 11 | - | 12,593 |
| Current accounts and profit / loss sharing investors' accounts | 12 | 933,982 | 786,112 |
| Taxes on income | 13 | 780 | 325 |
| Withholdings and other taxes payable | | 3,003 | 3,260 |
| Other liabilities | 14 | 6,516 | 15,112 |
| Reserve for employment termination benefits | 15 | 799 | 842 |
| Deferred tax liability | 13 | 246 | - |
| Total liabilities | | 945,326 | 818,244 |
| Shareholders' equity: | | | |
| Share capital | 16 | 95,310 | 36,630 |
| Adjustment to share capital | 16 | (14,515) | 763 |
| Total paid-in capital | | 80,795 | 37,393 |
| Retained earnings | 17 | 20,912 | 20,533 |
| Total shareholders' equity | | 101,707 | 57,926 |
| Total liabilities and shareholders' equity | | 1,047,033 | 876,170 |
| Commitments and contingent liabilities | 21 | | |

These consolidated financial statements as at and for the year ended 31 December 2002 have been approved for issue by the Board of Directors on 24 April 2003 and signed on its behalf by Mohammed S. Al-Omar, the Chairman and by Ufuk Uyan, the Chief Executive Officer of the Institution.

The accompanying notes form an integral part of these consolidated financial statements.

KUVEYT TÜRK EVKAF F NANS KURUMU A. .**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

| | Notes | 2002 | 2001 |
|---|-------|-----------------|-----------------|
| Income from financing activities: | | | |
| Profit/loss sharing accounts | | 62,986 | 79,254 |
| Current accounts and equity | | 22,575 | 23,128 |
| | | 85,561 | 102,382 |
| Profit shares distributed | | (50,682) | (72,102) |
| Net financing income | | 34,879 | 30,280 |
| Foreign exchange gain, net | | 1,429 | 12,814 |
| Net financing income after net foreign exchange gain | | 36,308 | 43,094 |
| Fee and commission income | 18 | 20,115 | 14,661 |
| Fee and commission expense | | (5,863) | (6,365) |
| Net fee and commission income | | 14,252 | 8,296 |
| Other operating revenue: | | | |
| Income from construction projects, net | 19 | 712 | 5,663 |
| Other income | | 2,942 | 4,355 |
| Total operating income | | 54,214 | 61,408 |
| Other operating expenses: | | | |
| Staff costs | | (15,055) | (14,458) |
| Reserve for impairment in financing activities | | (3,608) | (16,233) |
| Depreciation and amortisation expense | | (2,887) | (2,267) |
| Withholdings and other taxes | | (4,518) | (2,974) |
| Rent expense | | (2,936) | (2,686) |
| Other expenses | 20 | (11,484) | (10,095) |
| Total other operating expenses | | (40,488) | (48,713) |
| Loss on net monetary position | | (4,705) | (5,267) |
| Income before income taxes | | 9,021 | 7,428 |
| Income taxes | 13 | (7,999) | (4,174) |
| Net income for the year | | 1,022 | 3,254 |

The accompanying notes form an integral part of these consolidated financial statements.

KUVEYT TÜRK EVKAF F NANS KURUMU A. .

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

| | Notes | 2002 | 2001 |
|--|-------|-----------------|----------------|
| Cash flows from operating activities: | | | |
| Net income | | 1,022 | 3,254 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortisation | | 2,887 | 2,268 |
| Reserve for employment termination benefits | 15 | (43) | 355 |
| Effect of adoption of IAS 39 | | - | (99) |
| Add-back deferred tax effect of IAS 39 | | - | (25) |
| Effect of consolidation of subsidiary undertaking | 2 | - | (4,752) |
| Last year's deferred taxation of consolidated subsidiary | | - | (1,682) |
| Provision for doubtful receivables | | 3,608 | 16,233 |
| Provision for taxation | | 7,999 | 4,174 |
| Income taxes paid | | (124) | (299) |
| (Loss) / profit on sales of property and equipment | | (95) | 428 |
| Income from funds invested | | (85,561) | (102,382) |
| Profit shares | | 50,682 | 72,102 |
| Inflation effect on non-operating activities | | 1,881 | 12,105 |
| Operating gain/ (loss) before changes in, operating assets and liabilities: | | (17,744) | 1,680 |
| Increase in blocked accounts with the Central Bank of Turkey | | (4,192) | (17,678) |
| (Increase) / decrease in due from financing activities | | (84,881) | 182,609 |
| Increase in overdue receivables | | (41,631) | (73,107) |
| Increase in investment in finance leases | | (66,437) | (24,010) |
| Increase in other assets and construction projects | | (1,747) | (26,784) |
| Increase in current accounts and profit/loss sharing investors accounts | | 147,302 | 91,653 |
| (Decrease) / increase in withholdings and other taxes payable | | (258) | 1,251 |
| Increase in other liabilities | | 568 | 10,064 |
| | | (69,020) | 145,678 |
| Income received from funds invested | | 82,102 | 114,839 |
| Profit shares distributed | | (59,278) | (72,942) |
| Inflation effect on operating activities | | 61,767 | 87,680 |
| Net cash provided from operating activities | | 15,571 | 275,255 |
| Cash flows from investing activities: | | | |
| Decrease in available for sale securities | | 378 | 354 |
| Net additions to property and equipment | 10 | (27,937) | (7,751) |
| Change in consolidated investment structure | 5 | - | 598 |
| Acquisition of investments | 5 | (189) | (60) |
| Inflation effect on investment activities | | (441) | 1,228 |
| Net cash used in investing activities | | (28,189) | (5,631) |
| Cash flows from financing activities: | | | |
| Increase in share capital | | 43,402 | - |
| Dividends and donation paid | | (643) | (824) |
| (Redemption of) / proceeds from other financial institutions | 11 | (12,593) | 12,593 |
| Net cash provided from financing activities | | 30,166 | 11,769 |
| Net increase in cash and cash equivalents | | 17,548 | 281,393 |
| Cash and cash equivalents | | | |
| At beginning of the year | 3 | 259,770 | 79,390 |
| Inflation effect on cash and cash equivalents | | (63,205) | (101,013) |
| At end of the year | 3 | 214,113 | 259,770 |

The accompanying notes from an integral part of these consolidated financial statements.

KUVEYT TÜRK EVKAF F NANS KURUMU A. .**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

| | Share capital | Adjustment to share capital | Retained earnings | Shareholders' equity total |
|---|------------------|--------------------------------|----------------------|----------------------------------|
| Balance at 1 January 2001 | 21,630 | 15,763 | 22,856 | 60,249 |
| Non-cash increase in share capital | 15,000 | (15,000) | - | - |
| Effect of consolidation of subsidiary undertaking (Note 2) | - | - | (4,753) | (4,753) |
| Cash dividends | - | - | (149) | (149) |
| Cash donation | - | - | (675) | (675) |
| Net income for the year | - | - | 3,254 | 3,254 |
| Balance at 31 December 2001 | 36,630 | 763 | 20,533 | 57,926 |
| Balance at 1 January 2002 | 36,630 | 763 | 20,533 | 57,926 |
| Increase in share capital | 35,640 | 7,762 | - | 43,402 |
| Non-cash increase in share capital | 23,040 | (23,040) | - | - |
| Cash dividends | - | - | (112) | (112) |
| Cash donation | - | - | (531) | (531) |
| Net income for the year | - | - | 1,022 | 1,022 |
| Balance at 31 December 2002 | 95,310 | (14,515) | 20,912 | 101,707 |

The accompanying notes form an integral part of these consolidated financial statements.

KUVEYT TÜRK EVKAF F NANS KURUMU A. .

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2002 AND 2001

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 1 - ORGANIZATION AND NATURE OF OPERATIONS

Kuveyt Türk Evkaf Finans Kurumu A. . (“the Institution”) was formed in accordance with the provisions of Decree No. 83/7506, issued on 16 December 1983 relating to the establishment of Special Finance Houses in Turkey. The Institution obtained permission from the Central Bank of Turkey on 28 February 1989 and commenced its operations on 31 March 1989. At 31 December 2002, the Institution has 36 branches (2001: 29 branches) that are principally engaged in collecting funds through current accounts and profit/loss sharing accounts, and disbursing funds to the customers. As at 31 December 2002, the Institution has 538 employees (2001: 445 employees). The Institution’s head office is located at Büyükdere caddesi No: 129, 34394 Esentepe i li / Istanbul.

The Institution’s subsidiary, Körfez Gayrimenkul n aat Taahhüt Turizm Sanayi ve Ticaret Anonim irketi (“the subsidiary”), was incorporated in June 1996 according to the Turkish Commercial Code. The subsidiary’s head office is registered in Büyükdere caddesi, No: 129, 34394 Esentepe i li / Istanbul. The Company is engaged in development and marketing of real estate projects in Turkey, including Güre project which comprises the construction of 204 “time-sharing” houses in Edremit-Bal kesir, and Hasbahçe project which comprises 7 residential houses in Büyükçekmece-Istanbul. The Company’s main sources of revenue are currently from the sales of these projects and expert valuations carried for third parties.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of presentation of financial statements

The consolidated financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”), including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board (“IASB”). The Institution and its subsidiary maintain their books of account and prepare their statutory financial statements in accordance with the Turkish Commercial Code, Turkish tax legislation, and the relevant rules and regulations of the Banking Regulation and Supervision Agency (“BRSA”) and the Central Bank of Turkey for the Institution only. These consolidated financial statements are based on the statutory records, which are maintained under the historical cost convention with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

In 2001, the Institution adopted IAS 39 “Financial Instruments: Recognition and Measurement”. The financial effects of adopting IAS 39 were reported in prior years’ consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2002 AND 2001**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The restatement for changes in the general purchasing power of the Turkish lira as of 31 December 2002 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 is applicable to financial statements covering periods beginning on or after 1 January 1990. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date, and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The restatement was calculated by means of conversion factors derived from the Turkish nation wide wholesale price index ("WPI") published by the State Institute of Statistics ("SIS").

Indices and conversion factors used to restate these financial statements as of 31 December 2002 and 2001 are given below:

| <u>Date</u> | <u>Index</u> | <u>Conversion factor</u> | <u>Three-year cumulative inflation rates</u> |
|-------------------------|----------------|--------------------------|--|
| 31 December 2002 | 6,478.8 | 1.000 | 227.3 % |
| 31 December 2001 | 4,951.7 | 1.308 | 307.5 % |
| 31 December 2000 | 2,626.0 | 2.467 | 233.4 % |

The main procedures for the above mentioned restatement are as follows:

- Financial statements prepared in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the balance sheet date, and corresponding figures for previous periods are restated in the same terms.
- Monetary assets and liabilities which are carried at amounts current at the balance sheet date are not restated because they are already expressed in terms of the monetary unit current at the balance sheet date.
- Non-monetary assets and liabilities which are not carried at amounts current at the balance sheet date and components of shareholders' equity are restated by applying the relevant (monthly, yearly average, year end) conversion factors. Additions to property and equipment in the year of acquisition are restated by applying the relevant (monthly, yearly average, year-end) conversion factors.
- All items in the statement of income are restated by applying the relevant conversion factors.
- The effects of inflation on the Institution's net monetary position are included in the statement of income as net loss on net monetary position.
- Comparative financial statements are restated using general inflation indices at the currency purchasing power at the latest balance sheet date.

KUVEYT TÜRK EVKAF F NANS KURUMU A. .

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2002 AND 2001

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Consolidation of subsidiary

Subsidiary undertaking, in which the Institution, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, has been line-by-line consolidated in 2002 and 2001. All material balances and transactions between the Institution and subsidiary are eliminated in these consolidated financial statements. Details of the subsidiary subject to consolidation are stated below:

| <u>Name of subsidiary</u> | <u>Country of incorporation</u> | <u>Direct shareholding by the Company (%)</u> | |
|--|---------------------------------|---|-------------|
| | | <u>2002</u> | <u>2001</u> |
| Körfez Gayrimenkul n aat Taahhüt Turizm San. ve Tic. A. . ("Körfez Gayrimenkul") | Turkey | 99.00 | 99.00 |

Other subsidiaries, G.A.P. Boru San. ve Tic. A. . and Körfez Tatil Beldesi Turistik Tesisler ve Devremülk letmecili i A. ., where the Institution has direct or indirect shareholding of 100%, are excluded from the scope of consolidation on the grounds of materiality. Those subsidiaries are accounted for as if they were as available-for-sale securities (Notes 2 (c) and 5).

(c) Available-for-sale securities

Available-for-sale securities are stated at fair value based on quoted bid prices. All movements in fair value are included in the consolidated statement of income. The unconsolidated subsidiaries of the Institution which are unlisted have been also classified under available-for-sale securities. Those subsidiaries are carried at cost since they do not have quoted market prices in active markets and other methods of reasonably estimating fair value are clearly unworkable (Note 5).

(d) Related parties

For the purpose of these consolidated financial statements, shareholders of the Institution, companies controlled by or associated with the shareholders, other investments and directors and key management personnel are considered and referred to as related parties. A number of transactions were entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and at market rates (Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2002 AND 2001

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Financing activities, provisions and revenue recognition

Financing activities, which are all originated by the Institution, such as “murabaha” contracts, are stated at their gross principal amounts, less deferred income and provision for impairment on funds disbursed. All financing activities are recognised when cash is advanced to borrowers.

The provision for impairment on financing activities comprises an amount which is considered adequate by management to cover the inherent risk of loss present in funding relationships as a result of evaluation of total funds invested (including investments in leases) and specifically identified losses. The Institution reviews all significant financing relationship at each balance sheet date, where impairment is identified, the amount of the provision is the difference between the carrying amount and the recoverable amount, including amounts recoverable from guarantees and collateral, being the present value of the expected cash flows using the discounted profit rate at inception. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision expense.

The accounting treatment for provision for impairment on funds invested depends on the source of funds disbursed. When the funds disbursed from profit and loss sharing accounts are considered impaired, 10% of the risk is charged to income statement, and 90% of the risk is reflected to investors’ accounts as deduction to profit shares to be distributed or customer accounts. If the funds invested are disbursed from equity, full provision is charged to income statement.

(f) Properties acquired in satisfaction of funds

Properties acquired in satisfaction of funds disbursed represent properties foreclosed and held for sale and they are included in other assets. These properties are stated at cost less impairment. For significant properties held for sale, impairment is determined by reference to valuation made by an independent expert.

(g) Accounting for export transactions via the Institution

Receivables arising from export transactions performed via the Institution where the collection risk belongs to the exporter and the corresponding payables to exporters, are accounted for under due from financing activities and other liabilities (Note 14).

(h) Property and equipment and related depreciation

Property and equipment are carried at cost less accumulated depreciation, in each case restated to the equivalent purchasing power at 31 December 2002. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

| | |
|--------------------------------|-----------|
| Buildings | 50 years |
| Furniture and office equipment | 4-5 years |
| Motor vehicles | 4-5 years |
| Leasehold improvements | 5 years |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2002 AND 2001**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

(i) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(j) Provision

Provisions are recognised when the Institution has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(k) Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets resulting from temporary differences in the recognition of expense for income tax and financial reporting purposes are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised.

The principal temporary differences arise from the restatement of property and equipment over their historical cost, differences arising from operating and finance lease, provision for impairment on funds disbursed and provision for employment termination benefits (Note 13).

(l) Employment termination benefits

Employment termination benefits represent the present value of the estimated total reserve of the future probable obligation of the Institution arising from the retirement of the employees calculated in accordance with the Turkish Labor Law (Note 15).

(m) Foreign currency transactions

Transactions in foreign currencies have been translated at the exchange rates prevailing at the dates of the transactions. Balance sheet items denominated in foreign currencies have been translated at the exchange rates prevailing at the balance sheet dates (Note 2.t). Exchange gains or losses arising from settlement and translation of foreign currency items have been included in the related income and expense accounts, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2002 AND 2001

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Due to other financial institutions

Due to other financial institutions is initially recognised at cost, being the proceeds issued net of transaction costs incurred. Subsequently, they are stated at amortised cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of borrowings using the value implicit in the agreement.

(o) Income and expense recognition

Income and expenses are recognised on accrual basis except for fees and commissions. Fee and commission income, including income from banking services, and fee and commission expenses are recorded as income or expense when received or paid. Income from construction projects is recognised based on the percentage of completion method measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

(p) Profit/loss sharing account income recognition

Income from funds invested from profit/loss sharing accounts is recognised on accrual basis and the net income is distributed to profit/loss sharing accounts. Accrued income from funds invested from profit/loss sharing accounts is recognised in full and 80% of this income is recorded as expense for the profit shares distributed, except for the accrued income from funds invested from special profit/loss sharing accounts where 90% is accrued as expense.

(q) Accounting for leases

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(r) Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents include cash and amounts due from banks.

(s) Credit risk

Financial instruments contain an element of risk that the counterparty may be unable to meet the terms of the agreements. This risk is managed by limiting the aggregate risk to any individual counterparty and financial institution. The Institution's exposure to credit risk is concentrated in Turkey where the majority of the activities are carried out. The credit risk is generally diversified due to the large number of entities comprising the customer bases and their dispersion across different industries.

KUVEYT TÜRK EVKAF F NANS KURUMU A. .

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2002 AND 2001**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Currency risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. The risk arising from the depreciation or appreciation of Turkish lira against foreign currencies is managed by monitoring the foreign currency position by senior management and taking positions within approved limits.

The table below summarises the Institution's exposure to foreign exchange rate risk at 31 December 2002 and 2001. Included in the table are the Institution's assets and liabilities at carrying amounts, categorised by currency monitoring the foreign currency position by senior management and taking positions within the approved limits.

31 December 2002

| | TL | US\$ | EUR | Other | Total |
|---|----------------|----------------|----------------|--------------|------------------|
| Cash and due from banks | 42,128 | 121,789 | 46,553 | 3,643 | 214,113 |
| Blocked accounts at the Central Bank of Turkey | 5,064 | 70,685 | 19,349 | - | 95,098 |
| Available-for-sale securities | 864 | 844 | - | - | 1,708 |
| Due from financing activities | 69,234 | 333,672 | 58,349 | - | 461,255 |
| Investment in finance leases | 2,454 | 129,056 | 60,548 | - | 192,058 |
| Other assets | 22,856 | 2,027 | 2,686 | - | 27,569 |
| Construction projects | 10,447 | 1,230 | - | - | 11,677 |
| Property and equipment | 43,535 | - | - | - | 43,535 |
| Intangible assets | 20 | - | - | - | 20 |
| Total assets | 196,602 | 659,303 | 187,485 | 3,643 | 1,047,033 |
| Current accounts and profit/loss sharing investors' accounts | 97,411 | 658,295 | 176,447 | 1,829 | 933,982 |
| Taxes on income | 780 | - | - | - | 780 |
| Withholdings and other taxes payable | 3,003 | - | - | - | 3,003 |
| Other liabilities | 5,485 | 954 | 22 | 55 | 6,516 |
| Reserve for employment termination benefits | 799 | - | - | - | 799 |
| Deferred tax liability | 246 | - | - | - | 246 |
| Total liabilities | 107,724 | 659,249 | 176,469 | 1,884 | 945,326 |
| Net balance sheet position | 88,878 | 54 | 11,016 | 1,759 | 101,707 |

KUVEYT TÜRK EVKAF F NANS KURUMU A. .**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2002 AND 2001**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**31 December 2001**

| | TL | US\$ | EUR | Other | Total |
|---|----------------|-----------------|----------------|--------------|----------------|
| Cash and due from banks | 23,557 | 129,534 | 98,943 | 7,736 | 259,770 |
| Blocked accounts at the Central Bank of Turkey | 2,713 | 71,136 | 17,045 | 12 | 90,906 |
| Available-for-sale securities | 925 | 974 | - | - | 1,899 |
| Due from financing activities | 39,838 | 189,749 | 105,735 | - | 335,322 |
| Investment in finance leases | 1,074 | 86,823 | 37,724 | - | 125,621 |
| Other assets | 12,474 | 10,817 | 819 | - | 24,110 |
| Construction projects | 10,158 | 2,801 | - | - | 12,959 |
| Property and equipment | 18,393 | - | - | - | 18,393 |
| Intangible assets | 17 | - | - | - | 17 |
| Deferred tax asset | 7,173 | - | - | - | 7,173 |
| Total assets | 116,322 | 491,834 | 260,266 | 7,748 | 876,170 |
| Due to other financial institutions | - | 12,593 | - | - | 12,593 |
| Current accounts and profit/loss sharing investors' accounts | 57,496 | 550,338 | 172,909 | 5,369 | 786,112 |
| Taxes on income | 325 | - | - | - | 325 |
| Withholdings and other taxes payable | 3,260 | - | - | - | 3,260 |
| Other liabilities | 3,374 | 2,411 | 9,327 | - | 15,112 |
| Reserve for employment termination benefits | 842 | - | - | - | 842 |
| Total liabilities | 65,297 | 565,342 | 182,236 | 5,369 | 818,244 |
| Net balance sheet position | 51,025 | (73,508) | 78,030 | 2,379 | 57,926 |

Foreign currency assets and liabilities are evaluated by using the Institution's foreign currency bid rate for US\$1 = TL1,634,501, EUR1 = TL1,703,477 at 31 December 2002.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**(u) Liquidity risk**

Liquidity risk is the possibility that the Institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To hedge against this risk, management has diversified funding sources, and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Moreover, the ability to fund the existing and prospective debt requirements and cover withdrawals at unexpected levels of demand is managed by maintaining the availability of adequate funding lines from shareholders and high quality investors.

The table below analyses assets and liabilities of the Institution into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

| | Demand and less than 1 month | 1 to 3 months | 3 to 12 months | Over 1 year | Overdue/ no maturity | Total |
|---|------------------------------------|------------------|-------------------|----------------|----------------------------|------------------|
| 31 December 2002 | | | | | | |
| ASSETS | | | | | | |
| Cash and due from banks | 210,354 | 3,759 | - | - | - | 214,113 |
| Blocked accounts at Central Bank of Turkey | - | - | - | - | 95,098 | 95,098 |
| Available-for-sale securities | - | - | - | - | 1,708 | 1,708 |
| Due from financing activities | 32,645 | 72,767 | 212,075 | 75,209 | 68,559 | 461,255 |
| Investments in finance leases | 13,444 | 17,285 | 69,141 | 92,188 | - | 192,058 |
| Other assets | 13,558 | - | - | - | 14,011 | 27,569 |
| Construction projects | - | - | 1,230 | - | 10,447 | 11,677 |
| Property and equipment | - | - | - | - | 43,535 | 43,535 |
| Intangible assets | - | - | - | - | 20 | 20 |
| Total assets | 270,001 | 93,811 | 282,446 | 167,397 | 233,378 | 1,047,033 |
| LIABILITIES | | | | | | |
| Current accounts and profit/loss sharing investors' accounts | 647,961 | 190,771 | 39,538 | 55,712 | - | 933,982 |
| Taxes on income | 780 | - | - | - | - | 780 |
| Withholdings and other taxes payable | 3,003 | - | - | - | - | 3,003 |
| Other liabilities | 781 | 4,801 | - | 934 | - | 6,516 |
| Reserve for employment termination benefits | - | - | - | - | 799 | 799 |
| Deferred tax liability | - | - | - | - | 246 | 246 |
| Total liabilities | 652,525 | 195,572 | 39,538 | 56,646 | 1,045 | 945,326 |
| Net liquidity gap | (382,524) | (101,761) | 242,908 | 110,751 | 232,333 | 101,707 |

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

| 31 December 2001 | Demand and less than 1 month | 1 to 3 months | 3 to 12 months | Over 1 year | Overdue/ no maturity | Total |
|---|---|--------------------------|---------------------------|------------------------|-------------------------------------|----------------|
| ASSETS | | | | | | |
| Cash and due from banks | 257,889 | - | 1,881 | - | - | 259,770 |
| Blocked accounts at Central Bank of Turkey | - | 10,555 | - | - | 80,351 | 90,906 |
| Available for sale securities | 1,725 | - | - | - | 174 | 1,899 |
| Due from financing activities | 28,006 | 56,348 | 134,755 | 83,923 | 32,290 | 335,322 |
| Investments in finance leases | 8,594 | 17,289 | 41,348 | 58,390 | - | 125,621 |
| Other assets | 14,231 | - | - | - | 9,879 | 24,110 |
| Construction projects | 670 | 26 | 2,105 | - | 10,158 | 12,959 |
| Property and equipment | - | - | - | - | 18,393 | 18,393 |
| Intangibles | - | - | - | - | 17 | 17 |
| Deferred tax asset | - | - | - | 7,173 | - | 7,173 |
| Total assets | 311,115 | 84,218 | 180,089 | 149,486 | 151,262 | 876,170 |
| LIABILITIES | | | | | | |
| Due to other financial institutions | - | 10,662 | 1,931 | - | - | 12,593 |
| Current accounts and profit/loss sharing investors' accounts | 574,472 | 129,228 | 34,177 | 48,235 | - | 786,112 |
| Taxes on income | 325 | - | - | - | - | 325 |
| Withholdings and other taxes payable | 3,260 | - | - | - | - | 3,260 |
| Other liabilities | 1,811 | 11,134 | - | 2,167 | - | 15,112 |
| Reserve for employment termination benefits | - | - | - | 842 | - | 842 |
| Total liabilities | 579,868 | 151,024 | 36,108 | 51,244 | - | 818,244 |
| Net liquidity gap | (268,753) | (66,806) | 143,981 | 98,242 | 151,262 | 57,926 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2002 AND 2001

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Repricing of assets and liabilities

Expected repricing and maturity dates do not differ significantly from the contractual dates. The table below summarises the effective average profit rate by major currencies for monetary financial instruments:

31 December 2002

| Assets | US\$ % | EUR % | TL % |
|--|--------|-------|------|
| Cash and due from banks | 1.4 | 2.9 | 37 |
| Due from financing activities | 8.7 | 8.8 | 66.5 |
| Investments in leases | 10.8 | 8.7 | 66.7 |
| Liabilities | | | |
| Current accounts and profit/loss sharing investors' accounts | 2.8 | 2.8 | 32.4 |

31 December 2001

| Assets | US\$ % | EUR % | TL % |
|--|--------|-------|-------|
| Cash and due from banks | 4.7 | 3.5 | 44.9 |
| Due from financing activities | 20.0 | 16.6 | 103.0 |
| Investments in leases | 24.4 | 22.8 | 56.7 |
| Liabilities | | | |
| Due to other financial institutions | 5.7 | - | - |
| Current accounts and profit/loss sharing investors' accounts | 7.0 | 7.0 | 58.8 |

(w) Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Institution using available market information and appropriate valuation methodologies. However judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Institution could realise in a current market exchange.

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NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

Financial assets:

Monetary assets for which fair value approximates carrying value:

Balances denominated in foreign currencies are translated at year-end exchange rates.

The fair values of certain financial assets carried at cost, including cash and due from banks, and other financial assets are considered to approximate their respective carrying values due to their short-term nature and negligible credit losses.

The carrying values of funds invested along with the related allowances for uncollectibility is estimated to be their fair values.

Financial liabilities:

Monetary liabilities for which fair value approximates carrying value:

The fair value of monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

(x) Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

NOTE 3 - CASH AND DUE FROM BANKS

| | 2002 | 2001 |
|--------------------------------------|----------------|----------------|
| Cash: | | |
| Turkish lira | 3,637 | 5,039 |
| Foreign currency | 9,499 | 26,002 |
| | 13,136 | 31,041 |
| Due from banks : | | |
| Foreign banks | | |
| - Turkish lira | 32,788 | 15,244 |
| - Foreign currency | 142,595 | 157,368 |
| Central Bank of Turkey | | |
| - Turkish lira | 1,960 | 72 |
| - Foreign currency | 789 | 59 |
| Domestic banks | | |
| - Turkish lira | 3,677 | 3,113 |
| - Foreign currency | 17,803 | 51,512 |
| Special finance institutions | | |
| - Turkish lira | 66 | 89 |
| - Foreign currency | 1,299 | 1,272 |
| | 200,977 | 228,729 |
| Total cash and due from banks | 214,113 | 259,770 |

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NOTE 3 - CASH AND DUE FROM BANKS (Continued)

Foreign currency cash includes the following:

| | <u>2002</u> | | <u>2001</u> | |
|-------|---------------------|--------------|---------------------|---------------|
| | Foreign currency | TL billion | Foreign currency | TL billion |
| US\$ | 3,928,416 | 6,421 | 5,373,892 | 10,102 |
| EUR | 1,559,164 | 2,656 | 5,600,000 | 9,275 |
| DM | - | - | 7,253,926 | 6,143 |
| Other | - | 422 | - | 482 |
| | | 9,499 | | 26,002 |

Foreign banks include the following profit and loss sharing accounts with maturities up to one month and four months.

| | <u>Principal 2002</u> | | Value at maturity | <u>Principal 2001</u> | | Value at maturity |
|-------------------------------|-----------------------|----------------|----------------------|-----------------------|----------------|----------------------|
| | Original currency | TL billion | Original currency | Original currency | TL billion | Original currency |
| <u>Up to one month</u> | | | | | | |
| US\$ | 43,500,000 | 71,101 | 43,583,034 | 46,000,000 | 86,476 | 46,081,290 |
| EUR | 22,282,500 | 37,958 | 22,325,513 | 28,000,000 | 46,374 | 28,079,220 |
| TL | | 32,500 | 32,840 | | 15,047 | 15,482 |
| | | 141,559 | | | 147,897 | |

Up to four months

| | | | | | | |
|------|------------|--------|------------|-----------|-------|-----------|
| US\$ | 14,500,000 | 23,700 | 14,502,332 | 1,000,000 | 1,879 | 1,001,961 |
|------|------------|--------|------------|-----------|-------|-----------|

NOTE 4 - BLOCKED ACCOUNTS AT THE CENTRAL BANK OF TURKEY AND LIQUIDITY REQUIREMENTS

Blocked accounts at the Central Bank of Turkey at 31 December are as follows:

| | <u>2002</u> | | <u>2001</u> | |
|-------|---------------------|---------------|---------------------|---------------|
| | Foreign currency | TL billion | Foreign currency | TL billion |
| TL | - | 5,064 | - | 2,713 |
| US\$ | 43,245,768 | 70,685 | 37,840,186 | 71,136 |
| EUR | 11,358,670 | 19,349 | 10,291,644 | 17,045 |
| Other | - | - | - | 12 |
| | | 95,098 | | 90,906 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2002 AND 2001

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NOTE 4 - BLOCKED ACCOUNTS AT THE CENTRAL BANK OF TURKEY AND LIQUIDITY REQUIREMENTS (Continued)

According to the Decree No 7 published in the Official Gazette 23515 dated 6 November 1998, the Institution is liable to maintain certain percentages of its Turkish lira and foreign currency current accounts and profit/loss sharing accounts as specified below in a blocked account at the Central Bank of Turkey. Blocked accounts may be in the form of cash or other type of liquid assets, as accepted by the Central Bank of Turkey.

| | <u>Rate %</u> | |
|----------------------------------|-----------------------------|-----------|
| | <u>Foreign currency</u> | <u>TL</u> |
| Current accounts (*) | 11 | 6 |
| Profit/loss sharing accounts (*) | 11 | 6 |

(*) Except for the placements of domestic banks and special finance houses.

As of 31 December 2001, TL10,555 billion (US\$5,614,700) of blocked accounts at the Central Bank of Turkey is consisted of a US\$ deposit pledged against purchasing EURO in cash in order to distribute to its branches (Note 14).

NOTE 5 - AVAILABLE-FOR-SALE SECURITIES

| | 2002 | 2001 |
|--|--------------|--------------|
| Participation fund | 844 | 973 |
| Common stocks | 501 | 752 |
| Islamic Interrating Agency | 189 | - |
| G.A.P. Boru San. ve Tic. A. . | 114 | 114 |
| Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İletmecili i A. . | 60 | 60 |
| | 1,708 | 1,899 |

Participation fund represents investment to Unit Investment Fund of Islamic Development Fund in the amount of US\$516,519 (2001: US\$517,800). Common stocks include various shares traded in the Istanbul Stock Exchange.

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NOTE 6 - DUE FROM FINANCING ACTIVITIES

At 31 December, due from financing activities are as follows:

| | 2002 | 2001 |
|---|-----------------|-----------------|
| Performing: | | |
| Funds invested from profit/loss sharing accounts | 334,588 | 262,915 |
| Funds invested from current accounts and equity | 39,268 | 24,307 |
| | 373,856 | 287,222 |
| Income accruals on due from financing activities | 18,840 | 15,810 |
| Non-performing: | | |
| Funds invested from profit / loss sharing accounts | 126,704 | 98,887 |
| Funds invested from current accounts and equity | 21,411 | 23,740 |
| | 148,115 | 122,627 |
| Total due from financing activities | 540,811 | 425,659 |
| Provision for impairment in funds disbursed: | | |
| Funds invested from current accounts and equity | (10,396) | (18,599) |
| Funds invested from profit / loss sharing accounts - Turkish lira | (5,583) | (7,360) |
| Funds invested from profit / loss sharing accounts - foreign currency | (63,577) | (64,378) |
| | (79,556) | (90,337) |
| Total due from financing activities | 461,255 | 335,322 |

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NOTE 6 - DUE FROM FINANCING ACTIVITIES, NET (Continued)

Due from financing activities excluding income accruals at 31 December are further analysed per sectors as follows:

| | 2002 | 2001 |
|-------------------------|----------------|----------------|
| Textile and leather | 107,461 | 60,738 |
| Food and beverage | 68,855 | 58,111 |
| Electronics | 41,216 | 12,166 |
| Chemicals and petroleum | 27,579 | 15,123 |
| Metal products | 26,559 | 24,658 |
| Forestry | 23,758 | 10,474 |
| Paper | 19,556 | 13,222 |
| Construction | 14,013 | 27,123 |
| Automotive | 11,737 | 10,868 |
| Computer | 9,353 | 5,076 |
| Leasing | 2,964 | 5,657 |
| Other industries | 20,805 | 44,006 |
| | 373,856 | 287,222 |

Movement in provisions for impairment in funds disbursed is as follows:

| | 2002 | 2001 |
|---|---------------|---------------|
| Balance at 1 January | 90,337 | 73,265 |
| Provisions - Institution | 6,263 | 19,951 |
| Provisions - customers | 32,236 | 49,243 |
| Recoveries of amounts previously provided for | (14,470) | (7,837) |
| Inflation effect | (34,810) | (44,285) |
| Balance at 31 December | 79,556 | 90,337 |

As explained in Note 2.e., when the funds disbursed from profit and loss sharing accounts are considered impaired, 10% of the risk is charged to income statement, and 90% of the risk is reflected to investors' accounts as deduction to profit shares to be distributed or customer accounts. If the funds invested are disbursed from equity, full provision is charged to income statement.

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NOTE 7 - INVESTMENT IN FINANCE LEASES

| | 2002 | 2001 |
|---|----------------|----------------|
| Gross investment in finance leases | 258,971 | 179,542 |
| Unearned finance income | (47,924) | (41,427) |
| Total investment in finance leases | 211,047 | 138,115 |
| Provision for impairment in finance lease receivables | (18,989) | (12,494) |
| Investment in finance leases | 192,058 | 125,621 |

Movement in provisions for impairment in finance leases is as follows:

| | | |
|---|---------------|---------------|
| Balance at 1 January 2002 | 12,494 | 1,344 |
| Provisions - Institution | 6,226 | 4,120 |
| Provisions - Customers | 5,368 | 8,703 |
| Recoveries of amounts previously provided for | (4,356) | - |
| Inflation effect | (743) | (1,673) |
| Balance at 31 December 2002 | 18,989 | 12,494 |

NOTE 8 - OTHER ASSETS

| | 2002 | 2001 |
|---|---------------|---------------|
| Assets held for disposal (in satisfaction of funds disbursed) | 14,011 | 9,878 |
| Transitory accounts | 8,185 | 9,604 |
| Advances and deposits given | 3,967 | 3,213 |
| Value added tax (VAT) receivable | 415 | 288 |
| Commission receivables from correspondent banks | 19 | 423 |
| Other | 972 | 704 |
| | 27,569 | 24,110 |

The impairment charge on assets held for disposal at 31 December 2002 is TL1,188 billion (Note 20) which was charged to statement of income in 2002.

As of 31 December 2002, the Institution is engaged in a lawsuit with the tax office with respect to the tax obligations amounting to TL5,301 billion arising from export intermediary services carried out in 1995. Following the decision of the Tax Court, the Institution has appealed to the Supreme Court, but also made a payment to the tax office amounting to TL5,301 billion in 2002, which is recorded in "transitory accounts" under "other assets" in these consolidated financial statements. No provision has been established in these consolidated financial statements with regard to this lawsuit, as the Institution's management believes that the Supreme Court's decision will probably be in favour of the Institution.

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NOTE 9 - CONSTRUCTION PROJECTS

| | 2002 | 2001 |
|--|---------------|---------------|
| Completed construction projects (inventories) | 10,447 | 10,158 |
| Receivables from construction projects | 3,733 | 5,287 |
| (Less) Provision for impairment in receivables | (2,503) | (2,486) |
| | 11,677 | 12,959 |

NOTE 10 - PROPERTY AND EQUIPMENT

| At 31 December 2001 | Land | Buildings | Furniture and office equipment | Motor vehicles | Leasehold improvements | Total |
|----------------------------|-------------|------------------|---|---------------------------|-----------------------------------|---------------|
| Cost | - | 14,199 | 18,514 | 1,348 | 3,246 | 37,307 |
| Accumulated depreciation | - | (2,668) | (13,017) | (1,172) | (2,057) | (18,914) |
| Net book amount | - | 11,531 | 5,497 | 176 | 1,189 | 18,393 |

Year ended 31 December 2002

| | | | | | | |
|-------------------------------|--------------|---------------|--------------|--------------|--------------|---------------|
| Opening net book value | - | 11,531 | 5,497 | 176 | 1,189 | 18,393 |
| Additions | 6,417 | 17,523 | 2,730 | 1,196 | 381 | 28,247 |
| Disposals | - | - | (20) | (36) | (173) | (229) |
| Depreciation charge | - | (404) | (2,070) | (129) | (273) | (2,876) |
| Closing net book value | 6,417 | 28,650 | 6,137 | 1,207 | 1,124 | 43,535 |

| At 31 December 2002 | Land | Buildings | Furniture and office equipment | Motor vehicles | Leasehold improvements | Total |
|-------------------------------|--------------|------------------|---|---------------------------|-----------------------------------|---------------|
| Cost | 6,417 | 31,722 | 21,224 | 2,508 | 3,454 | 65,325 |
| Accumulated depreciation | - | (3,072) | (15,087) | (1,301) | (2,330) | (21,790) |
| Closing net book value | 6,417 | 28,650 | 6,137 | 1,207 | 1,124 | 43,535 |

Included in land and buildings the purchase cost of the new head-office premises amounted to TL23,667 billion (original purchase cost of US\$13.1 million).

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NOTE 11 - DUE TO OTHER FINANCIAL INSTITUTIONS

| | 2002 | 2001 |
|--|-------------|---------------|
| Kuwait Finance House (Shareholder - Note 22.iv.) | - | 12,593 |
| | - | 12,593 |

The terms of due to other financial institutions are as follows:

| Currency | Initial cost foreign currency | Initial cost in TL billion | Amortised cost in TL billion | Maturity | Effective rate (%) |
|-----------------|--|---------------------------------------|---|-----------------|-------------------------------|
| US\$ | 5,500,000 | 10,339 | 10,662 | 11.03.2002 | 5.44-5.68 |
| US\$ | 1,000,000 | 1,880 | 1,931 | 11.05.2002 | 5.48 |
| | | 12,219 | 12,593 | | |

NOTE 12 - CURRENT ACCOUNTS AND PROFIT/LOSS SHARING INVESTORS' ACCOUNTS

| | 2002 | 2001 |
|--|----------------|----------------|
| Current accounts: | | |
| Turkish lira | 39,707 | 27,961 |
| Foreign currency | 122,707 | 84,449 |
| | 162,414 | 112,410 |
| Profit/loss sharing investors' accounts: | | |
| Turkish lira | 56,400 | 28,227 |
| Foreign currency | 713,291 | 644,166 |
| | 769,691 | 672,393 |
| Total current accounts and profit/loss inventors' accounts | 932,105 | 784,803 |
| Expense accrual on current accounts and profit/loss sharing investors' accounts | 1,877 | 1,309 |
| Total current accounts and profit/loss sharing investors' accounts | 933,982 | 786,112 |

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NOTE 12 - CURRENT ACCOUNTS AND PROFIT/LOSS SHARING INVESTORS' ACCOUNTS (Continued)

At 31 December, current accounts and profit/loss sharing investors' accounts, excluding expense accruals, can be analysed according to their original maturities as follows:

| | 2002 | | | 2001 | | |
|---------------------------|---------------------|-------------------------|----------------|---------------------|-------------------------|----------------|
| | Turkish lira | Foreign currency | Total | Turkish lira | Foreign currency | Total |
| Up to 1 month | 87,487 | 558,597 | 646,084 | 47,441 | 525,722 | 573,163 |
| From 1 month to 3 months | 6,549 | 184,222 | 190,771 | 4,536 | 124,692 | 129,228 |
| From 3 months to 1 year | 2,071 | 37,467 | 39,538 | 4,211 | 29,965 | 34,176 |
| 370 days special maturity | - | 55,712 | 55,712 | - | 48,236 | 48,236 |
| | 96,107 | 835,998 | 932,105 | 56,188 | 728,615 | 784,803 |

At 31 December foreign currency current accounts and profit/loss sharing investors' accounts are as follows:

| | 2002 | | 2001 | |
|---|-------------------------|-------------------|-------------------------|-------------------|
| | Foreign currency | TL billion | Foreign currency | TL billion |
| <u>Current accounts:</u> | | | | |
| US\$ | 63,415,225 | 103,650 | 30,753,217 | 57,813 |
| Euro | 10,112,947 | 17,228 | 12,953,864 | 21,454 |
| Other | - | 1,829 | - | 5,182 |
| | | 122,707 | | 84,449 |
| <u>Profit/loss sharing investors' accounts:</u> | | | | |
| US\$ | 339,042,473 | 554,165 | 261,994,178 | 492,525 |
| Euro | 93,412,078 | 159,126 | 91,447,208 | 151,455 |
| Other | - | - | - | 186 |
| | | 713,291 | | 644,166 |
| | | 835,998 | | 728,615 |

KUVEYT TÜRK EVKAF F NANS KURUMU A. .**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****AT 31 DECEMBER 2002 AND 2001**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 13 - TAXES ON INCOME

| | 2002 | 2001 |
|---|--------------------|--------------------|
| Income before taxes and after income deducted from prior year per statutory financial statements | 1,531 | 3,947 |
| Add/(deduct): | | |
| Disallowable expenses | 770 | 864 |
| Provision for severance pay | 364 | 225 |
| Income from free trade zone | (295) | (349) |
| Income to be taxed when received | (1,046) | (2,277) |
| Other allowances | (1,324) | (2,410) |
| <hr/> Tax basis | <hr/> - | <hr/> - |
| Tax thereon at the applicable tax rate 19.8% and 33% (2001: 19.8% and 33%) | 483 | 326 |
| Inflation adjustment | 97 | 95 |
| <hr/> Current tax | <hr/> 580 | <hr/> 421 |
| Deferred tax effect of temporary differences | 7,419 | 3,753 |
| <hr/> Total tax charge for the year | <hr/> 7,999 | <hr/> 4,174 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 - TAXES ON INCOME (Continued)

Effective from 1 January 1999, corporation tax is payable at a rate of 33% on the total income of the company after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed. Income exempt from corporation tax (except dividend income received from Turkish companies) is subject to withholding tax at the rate of 16.5% regardless of whether the profits are distributed.

Dividends paid by the company are subject to a withholding tax calculated on the gross dividend to be paid at the rate of 16.5% for private companies and 5.5% for quoted companies. An increase in capital using distributable profit or by issuing bonus shares is not considered as a profit distribution and thus there is no withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 25% on their corporate income. Advance tax is payable by the 15th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

Interest income on Turkish government bonds and treasury bills is subject to corporation tax.

Capital gains derived from the sale of investments in subsidiaries and immovable assets held for not less than two years are tax exempt if such gains are added to paid-in capital in the year in which they are sold.

Capital expenditures and projected capital expenditures for the following years are eligible for the incentive of investment allowance. Such allowance is available to companies for specific capital investments and are deductible from taxable income prior to the calculation of the corporate income tax. Investment allowance incentives utilised are subject to a withholding tax at the rate of 19.8%.

Under the Turkish taxation system, losses can be carried forward to offset against future taxable income for up to 5 years. Losses cannot be carried back, however, to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Deferred taxes for 2002 and 2001 have been calculated according to IAS 12 (revised), based on the liability method for all temporary differences subject to taxation using the effective tax rates of 19.8% for the Institution (due to investment incentive allowance) and 33% for the subsidiary (2001: 33%).

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(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2002)

NOTE 13 - TAXES ON INCOME (Continued)Deferred income taxes

The temporary differences giving rise to the deferred income tax assets and deferred tax liabilities are as follows:

| | 2002 | |
|---|-----------------------------|---------------|
| | Temporary difference | Amount |
| <u>Deferred income tax liabilities:</u> | | |
| Restatement of property and equipment, intangible assets and assets held for disposal | 4,210 | 1,010 |
| Accounting for finance leases | 2,459 | 487 |
| Restatement of construction projects | 472 | 156 |
| Provision for impairment in due from financing activities and investment in finance leases | 1,976 | 391 |
| Accrued income on 'murabaha' transactions | 52 | 10 |
| Accrued income on other available-for-sale securities | 29 | 6 |
| Effect of other adjustments | 5,442 | 1,345 |
| | 14,640 | 3,405 |
| <u>Deferred income tax assets:</u> | | |
| Reserve for employment termination benefits (Note 15) | 798 | 159 |
| Leasing obligation | 1,650 | 544 |
| Tax losses carried forward | 2,796 | 923 |
| Provision for impairment in receivables | 2,503 | 826 |
| Effect of other adjustments | 3,325 | 707 |
| | 11,072 | 3,159 |
| Deferred tax liability | 3,568 | 246 |

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NOTE 13 - TAXES ON INCOME (Continued)

| | 2001 | |
|---|-----------------------------|---------------|
| | Temporary difference | Amount |
| <u>Deferred income tax liabilities:</u> | | |
| Unrealized gains on available for sale securities | 50 | 10 |
| Accrued income on "murabaha" transactions | 343 | 68 |
| Accrued income on other available-for-sale securities | 33 | 7 |
| Restatement of property and equipment intangible assets and assets held for disposal | 4,791 | 1,036 |
| Effect of other adjustments | 2,325 | 577 |
| | 7,542 | 1,698 |
| <u>Deferred income tax assets:</u> | | |
| Accounting for finance leases | 20,433 | 4,046 |
| Reserve for employment termination benefits (Note 15) | 842 | 170 |
| Leasing obligation | 1,433 | 473 |
| Tax losses carried forward | 43 | 14 |
| Restatement of construction projects | 1,916 | 632 |
| Unearned finance income | 183 | 36 |
| Provision for impairment in receivables and write offs | 11,373 | 2,580 |
| Expense accrual of due to other financial institutions | 369 | 75 |
| Effect of other adjustments | 3,401 | 845 |
| | 39,993 | 8,871 |
| Deferred tax asset | 32,451 | 7,173 |

The movement in deferred taxes is as follows:

| | 2002 | 2001 |
|---|-------------|-------------|
| Deferred tax asset-net at beginning of year | | |
| - as previously reported | 7,173 | 9,641 |
| - effect of adopting IAS 39 | - | 25 |
| - effect of consolidation of the subsidiary | - | 1,260 |
| | | |
| - as restated at beginning of year | 7,173 | 10,926 |
| Expense for the year | (7,419) | (3,753) |
| | | |
| Deferred tax (liability) / asset-net at end of year | (246) | 7,173 |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2002 AND 2001

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NOTE 14 - OTHER LIABILITIES

| | 2002 | 2001 |
|---|--------------|---------------|
| Payable to exporter firms and suppliers | 4,218 | 2,788 |
| Expenses payable | 622 | 370 |
| Advances received | 302 | - |
| Provision for taxation penalty | 318 | - |
| Accrued profit payable | - | 2,164 |
| EURO loading payables | - | 9,275 |
| Other | 1,056 | 515 |
| | 6,516 | 15,112 |

The Institution bought EUR5,600,000 of cash from the Central Bank of Turkey which was distributed to its branches to meet the euro-cash needs of the customers since on January 1, 2002 euro notes and coin were to be put into circulation in all eurozone countries, and the withdrawal of national currency notes and coins were to be started. The Institution pledged a US\$ deposit against this purchase to the Central Bank of Turkey (Note 4).

NOTE 15 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS

Under the Turkish Labour Law, the Institution is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement (58 for women and 60 for men). Since the legislation was changed on 8 September 1999 there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL1,260,150,000 (2001: TL978,020,000) for each year of service.

The liability is not funded, as there is no funding requirement.

The reserve has been calculated by estimating the present value of the future probable obligation of the Institution arising from the retirement of the employees.

International Accounting Standards require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly the following actuarial assumptions were used in the calculation of the total liability:

| | 2002 | 2001 |
|---|------|------|
| Discount rate | 6% | 7% |
| Turnover rate to estimate the probability of retirement | 6% | 6% |

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL1,323,950,000 (2001: TL1,076,400,000) which is effective from 1 January 2003 has been taken into consideration in calculating the reserve for employment termination benefit of the Institution.

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NOTE 15 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS (Continued)

Movements in the reserve for the employment termination benefits during the year are as follows:

| | 2002 | 2001 |
|--------------------------|------------|------------|
| Balance - 1 January | 842 | 487 |
| Paid during the year | (559) | (297) |
| Increase during the year | 516 | 652 |
| Balance - 31 December | 799 | 842 |

NOTE 16 - SHARE CAPITAL

The Institution's authorised and fully paid-in capital amounts to TL95,310 billion (2001: TL36,630 billion), which consists of 953,100,000 shares (2001: 366,300,000 shares) of a nominal value of TL100,000 each. The Institution increased its share capital by TL58,680 billion (2001: TL15,000 billion) during 2002. At 31 December, the paid-in capital (in nominal TL) was held as follows:

| | 2002 | | 2001 | |
|--|----------|---------------|----------|---------------|
| | Shares % | TL billion | Shares % | TL billion |
| Kuwait Finance House | 62.0 | 58,861 | 50.0 | 18,311 |
| Vak flar Genel Müdürlü ü | 19.0 | 17,841 | 29.9 | 10,952 |
| The Public Institution for Social Security - Kuwait | 9.0 | 8,578 | 9.0 | 3,297 |
| Islamic Development Bank | 9.0 | 8,578 | 9.0 | 3,297 |
| Türkiye Diyanet Vakf | 0.5 | 597 | 1.0 | 366 |
| Other | 0.5 | 855 | 1.1 | 407 |
| Historical share capital | 100.0 | 95,310 | 100.0 | 36,630 |
| Adjustment to share capital | | (14,515) | | 763 |
| Total paid-in share capital | | 80,795 | | 37,393 |

Adjustment to share capital represents the restatement effect of the cash contributions to share capital in year-end equivalent purchasing power.

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NOTE 17 - LEGAL RESERVES AND RETAINED EARNINGS

The Institution is required to create the following legal reserves by making appropriations from earnings, which are available for distribution only in the event of liquidation of the Institution in accordance with the Turkish Commercial Code and the Institution's articles of association:

- a) First legal reserve, appropriated at the rate of 5%, until the total reserve is equal to 20% of issued and fully paid share capital.
- b) Second legal reserve, appropriated at the rate of at least 10% of distributions in excess of 5% of issued share capital, without limit. It may be used to absorb losses.

At 31 December, legal reserves and retained earnings per statutory accounts are as follows:

| | 2002 | 2001 |
|-------------------|--------------|--------------|
| Legal reserves | 783 | 632 |
| Retained earnings | 2,054 | 3,113 |
| | 2,837 | 3,745 |

NOTE 18 - FEE AND COMMISSION INCOME

| | 2002 | 2001 |
|--|---------------|---------------|
| Banking service commissions | 6,157 | 1,884 |
| Communication expense charges | 3,805 | 2,461 |
| Credit card fees and commissions | 2,178 | 2,269 |
| POS commission income | 1,931 | 2,387 |
| Income from agency activities | 1,764 | 2,207 |
| Import letter of credit commissions | 1,686 | 810 |
| Letter of guarantee charges | 762 | 940 |
| Electronic fund transfer (EFT) charges | 378 | 370 |
| Other | 1,454 | 1,333 |
| | 20,115 | 14,661 |

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NOTE 19 - INCOME FROM CONSTRUCTION PROJECTS

| | 2002 | 2001 |
|--|-------------|--------------|
| Gross revenue from construction projects | 1,195 | 11,794 |
| Income from service sales | 555 | 165 |
| Cost of construction project sales | (575) | (6,076) |
| Cost of services | (463) | (220) |
| | 712 | 5,663 |

NOTE 20 - OTHER EXPENSES

| | 2002 | 2001 |
|---|---------------|---------------|
| Advertising expenses | 2,100 | 3,734 |
| Professional fees | 2,083 | 960 |
| Communication expenses | 1,259 | 1,262 |
| Impairment expense on assets held for disposal (Note 8) | 1,188 | - |
| Insurance fund premium expense | 1,159 | - |
| Repair and maintenance expenses | 596 | 525 |
| Travel and representation expenses | 503 | 493 |
| Stationary and subscription expenses | 454 | 431 |
| Utility expenses | 337 | 314 |
| Provision expense for tax penalty | 318 | - |
| Computer system expenses | 135 | 100 |
| Unrealised losses on available for sale securities | 162 | 59 |
| Other | 1,190 | 2,217 |
| | 11,484 | 10,095 |

NOTE 21 - COMMITMENTS AND CONTINGENT LIABILITIES

The Institution has the following commitments and contingencies outstanding at 31 December:

| | 2002 | 2001 |
|--------------------|----------------|----------------|
| Guarantee letters | 109,320 | 83,447 |
| Letters of credit | 79,168 | 42,742 |
| Acceptance credits | 3,842 | 1,741 |
| | 192,330 | 127,930 |

A number of lawsuits with a total value of approximately US\$1.6 million (TL2,600 billion) have been brought against the Institution with respect to non-compliance with Law No. 1567 "Law on Protection of the Value of Turkish Lira" in the conducting of export intermediary services in 1998. No provision has been established in these consolidated financial statements with regard to these lawsuits.

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NOTE 22 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES

i) Due from banks:

| | <u>2002</u> | | <u>2001</u> | |
|----------------------|---------------------|--------------|---------------------|---------------|
| | Foreign currency | TL billion | Foreign currency | TL billion |
| Kuwait Finance House | US\$ 3,215,341 | 5,255 | 9,011,973 | 16,942 |
| | EUR 25,897 | 44 | 25,897 | 43 |
| | Kuwait dinar 6,769 | 37 | 5,998 | 37 |
| | | 5,336 | | 17,022 |

Income earned on profit and loss sharing accounts with Kuwait Finance House is TL198 billion (2001: TL17 billion).

ii) Available-for-sale securities:

| | <u>2002</u> | | <u>2001</u> | |
|--|----------------------|--------------|----------------------|--------------|
| | Original currency | TL billion | Original currency | TL billion |
| Islamic Development Bank participation fund | US\$ 516,519 | 844 | 517,800 | 973 |
| Islamic Interrating Agency | TL | 189 | | - |
| G.A.P. Boru San. ve Tic. A. . | TL | 114 | | 114 |
| Körfez Tatil Beldesi Turistik Tes. ve Devremülk l. A. . | TL | 60 | | 60 |
| | | 1,207 | | 1,147 |

iii) Investment in net finance lease receivables:

| | <u>2002</u> | | <u>2001</u> | |
|------------------------------|----------------------|--------------|----------------------|--------------|
| | Original currency | TL billion | Original currency | TL billion |
| G.A.P Boru San. ve Tic. A. . | US\$ 925,855 | 1,513 | 2,248,238 | 4,226 |
| | EUR 556,949 | 949 | 534,158 | 886 |
| | | 2,462 | | 5,112 |

iv) Due to other financial institutions:

| | <u>2002</u> | | <u>2001</u> | |
|----------------------|---------------------|------------|---------------------|------------|
| | Foreign Currency | TL billion | Foreign Currency | TL billion |
| Kuwait Finance House | US\$ - | - | 6,698,916 | 12,593 |

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NOTE 22 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)**v) Profit/loss sharing investors accounts:**

| | | <u>2002</u> | | <u>2001</u> | |
|--------------------------|------|-----------------|-------------------|-----------------|-------------------|
| | | <u>Foreign</u> | <u>TL billion</u> | <u>Foreign</u> | <u>TL billion</u> |
| | | <u>Currency</u> | | <u>Currency</u> | |
| Islamic Development Bank | US\$ | - | - | 8,130,464 | 15,285 |
| Kuwait Finance House | US\$ | 15,500,000 | 25,335 | 3,831,389 | 7,203 |
| Vak flar Genel Müdürlü ü | TL | - | 1,192 | | 331 |
| | | | 26,527 | 22,819 | |

vi) The profit shares distributed:

| | | <u>2002</u> | | <u>2001</u> | |
|--------------------------|------|-----------------|-------------------|-----------------|-------------------|
| | | <u>Foreign</u> | <u>TL billion</u> | <u>Foreign</u> | <u>TL billion</u> |
| | | <u>Currency</u> | | <u>Currency</u> | |
| Islamic Development Bank | US\$ | 126,536 | 207 | 1,092,330 | 2,053 |
| Kuwait Finance House | US\$ | 245,511 | 401 | 632,119 | 1,188 |
| | EUR | - | - | 148,240 | 246 |
| Vak flar Genel Müdürlü ü | | | 382 | | 103 |
| | | | 990 | 3,590 | |

vii) The guarantee letters issued:

| | <u>2002</u> | <u>2001</u> |
|-------------------------------|-------------|-------------|
| G.A.P. Boru San. ve Tic. A. . | 5 | 6 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 23 - SUBSEQUENT EVENTS

On 24 April 2003, amendments to Tax Law 4842, approved by the Turkish Parliament on 9 April 2003, were published in the Official Gazette and enacted. According to the aforementioned amendments, the corporation tax rate changed to 30% after adjusting for certain disallowable expenses, exempt income and investment and other allowances. In addition, corporations will be required to pay advance corporation tax quarterly at the rate of 30% on their corporate income. Prior to the amendments, the rate was 25%.

According to the amendments to the tax law, capital expenditures over TL5 billion are eligible for investment incentive allowance of 40%, without the requirement of an investment incentive certificate, and the amount of allowance is not subject to withholding tax. Investment allowances utilized within the scope of investment incentive certificates granted to applications filed prior to 24 April 2003 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

In addition, profit distribution to resident corporate shareholders and non-resident shareholders with business place in Turkey is not subject to profit distribution tax anymore.

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