

**KUVEYT TÜRK EVKAF F NANS KURUMU A. .**

**AUDITOR'S REPORT  
AND CONSOLIDATED FINANCIAL STATEMENTS  
AT 31 DECEMBER 2001**

## 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 2001 and the related consolidated statements of income and of cash flows for the year then ended, all expressed in equivalent purchasing power of the Turkish lira at 31 December 2001. These consolidated financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these consolidated 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. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kuveyt Türk Evkaf Finans Kurumu A. . at 31 December 2001 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

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

Haluk Yalç n, SMMM  
Istanbul, 5 March 2002

# KUVEYT TÜRK EVKAF F NANS KURUMU A. .

## CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2001

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# KUVEYT TÜRK EVKAF F NANS KURUMU A. .

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

|  | Notes | 2001               | 2000               |
|--|-------|--------------------|--------------------|
| <b>ASSETS</b>  |       |                    |                    |
| Cash and due from banks  | 3     | 198,540,331        | 60,677,059         |
| Blocked accounts at the Central Bank of Turkey                 | 4     | 69,479,148         | 55,967,817         |
| Available for sale securities                                  | 5     | 1,451,146          | 2,133,324          |
| Due from financing activities, net                             | 6     | 256,284,350        | 361,903,523        |
| Investment in leases, net                                      | 7     | 96,011,025         | 77,660,226         |
| Other assets   | 8     | 18,427,445         | 7,860,771          |
| Construction projects, net                                     | 9     | 9,904,378          | -                  |
| Property and equipment, net                                    | 10    | 14,057,732         | 10,206,234         |
| Intangible assets, net   |       | 13,267             | -                  |
| Deferred tax asset, net  | 13    | 5,482,239          | 7,368,362          |
| <b>Total assets</b>  |       | <b>669,651,061</b> | <b>583,777,316</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                    |       |                    |                    |
| Due to other financial institutions                            | 11    | 9,625,003          | -                  |
| Current accounts and profit / loss sharing investors' accounts | 12    | 600,819,373        | 531,411,513        |
| Taxes on income  | 13    | 249,272            | 477,822            |
| Withholdings and other taxes payable                           |       | 2,491,438          | 1,535,463          |
| Other liabilities  | 14    | 11,550,098         | 3,856,405          |
| Reserve for employment termination benefits                    | 15    | 643,877            | 372,083            |
| <b>Total liabilities</b>                                       |       | <b>625,379,061</b> | <b>537,653,286</b> |
| <b>Shareholders' equity:</b>                                   |       |                    |                    |
| Share capital  | 16    | 36,630,000         | 21,630,000         |
| Adjustment to share capital                                    | 16    | (8,051,232)        | 6,948,768          |
| Total share capital  |       | 28,578,768         | 28,578,768         |
| Retained earnings  | 17    | 15,693,232         | 17,545,262         |
| <b>Total shareholders' equity</b>                              |       | <b>44,272,000</b>  | <b>46,124,030</b>  |
| <b>Total liabilities and shareholders' equity</b>              |       | <b>669,651,061</b> | <b>583,777,316</b> |
| Commitments and contingent liabilities                         | 21    |                    |                    |

These consolidated financial statements as at and for the year ended 31 December 2001 have been approved for issue by the Board of Directors on 4 March 2002 and signed on its behalf by Mohammed S. Al-Omar, the Chairman and by Ufuk Uyan, the General Manager 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 millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

|   | Notes | 2001                | 2000                |
|---|-------|---------------------|---------------------|
| <b>Income from financing activities:</b>                    |       |                     |                     |
| Profit/loss sharing accounts                                |       | 60,573,121          | 58,740,154          |
| Current accounts and equity                                 |       | 17,676,613          | 23,012,292          |
|   |       | <b>78,249,734</b>   | <b>81,752,446</b>   |
| Profit shares distributed                                   |       | (55,107,331)        | (50,010,974)        |
| <b>Net financing income</b>                                 |       | <b>23,142,403</b>   | <b>31,741,472</b>   |
| Foreign exchange gain, net                                  |       | 9,793,414           | 1,769,658           |
| <b>Net financing income after net foreign exchange gain</b> |       | <b>32,935,817</b>   | <b>33,511,130</b>   |
| Fee and commission income                                   | 18    | 11,205,286          | 14,211,939          |
| Fee and commission expense                                  |       | (4,864,881)         | (1,737,176)         |
| <b>Net fee and commission income</b>                        |       | <b>6,340,405</b>    | <b>12,474,763</b>   |
| <b>Other operating revenue:</b>                             |       |                     |                     |
| Income from construction projects, net                      | 19    | 4,328,017           | -                   |
| Other income  |       | 3,328,487           | 1,482,936           |
| <b>Total operating income</b>                               |       | <b>46,932,726</b>   | <b>47,468,829</b>   |
| <b>Other operating expenses:</b>                            |       |                     |                     |
| Staff costs   |       | (11,050,242)        | (12,442,751)        |
| Reserve for bad and doubtful debts                          |       | (12,407,111)        | (10,854,198)        |
| Depreciation and amortisation expense                       |       | (1,732,656)         | (1,545,151)         |
| Withholdings and other taxes                                |       | (2,273,046)         | (2,889,003)         |
| Rent expense  |       | (2,052,611)         | (1,800,390)         |
| Other expenses  | 20    | (7,715,293)         | (5,044,770)         |
| <b>Total other operating expenses</b>                       |       | <b>(37,230,959)</b> | <b>(34,576,263)</b> |
| <b>Income before tax and net monetary loss</b>              |       | <b>9,701,767</b>    | <b>12,892,566</b>   |
| Taxation  | 13    | (3,190,506)         | 3,412,894           |
| Income before net monetary loss                             |       | 6,511,261           | 16,305,460          |
| Net monetary loss   | 2     | (4,025,559)         | (12,718,242)        |
| <b>Net income for the year</b>                              |       | <b>2,485,702</b>    | <b>3,587,218</b>    |

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 millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

|   | Notes | 2001               | 2000               |
|---|-------|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>  |       |                    |                    |
| Income before taxation and after net monetary loss  |       | 5,676,208          | 174,324            |
| Adjustments to reconcile income before taxation to net cash provided by operating activities: |       |                    |                    |
| Depreciation and amortisation   |       | 1,732,656          | 1,545,151          |
| Reserve for employment termination benefits   | 15    | 271,794            | 80,871             |
| Effect of adoption of IAS 39  |       | (75,992)           | -                  |
| Add-back deferred tax effect of IAS 39  |       | (18,761)           | -                  |
| Effect of consolidation of subsidiary undertaking   | 2     | (3,632,281)        | -                  |
| Last year's deferred taxation of consolidated subsidiary                                      |       | (1,285,621)        | -                  |
| Provision for doubtful receivables  |       | (13,047,709)       | (9,098,358)        |
| Income taxes paid   |       | (228,548)          | (853,836)          |
| Profit on sale of fixed assets  |       | 326,832            | 5,549              |
| Income from funds invested  |       | (78,249,734)       | (81,752,446)       |
| Profit shares   |       | 55,107,331         | 50,010,975         |
| Inflation effect on non-operating activities  |       | 9,253,520          | 25,001,877         |
| <b>Operating loss before changes in, operating assets and liabilities:</b>                    |       |                    |                    |
|   |       | (24,170,305)       | (14,885,893)       |
| Increase in blocked accounts with the Central Bank of Turkey                                  |       | (13,511,331)       | (6,098,416)        |
| Decrease / (increase) in due from financing activities  |       | 133,605,775        | (30,696,897)       |
| (Increase) / decrease in overdue receivables  |       | (24,459,752)       | 27,570,006         |
| (Increase) / decrease in lease investments  |       | (18,350,799)       | 1,460,231          |
| Increase in other assets and construction projects  |       | (20,471,052)       | (324,218)          |
| Increase in current accounts and profit/loss sharing investors accounts                       |       | 70,049,838         | 18,336,558         |
| Increase / (decrease) in withholdings and other taxes payable                                 |       | 955,975            | (1,802,598)        |
| Increase/(decrease) in other liabilities  |       | 7,691,691          | (1,959,957)        |
|   |       | 111,340,040        | (8,401,184)        |
| Income received from funds invested   |       | 87,770,593         | 82,654,604         |
| Profit shares distributed   |       | (55,749,309)       | (48,369,005)       |
| Inflation effect on operating activities  |       | 67,013,190         | 49,097,941         |
| <b>Net cash provided from operating activities</b>  |       | <b>210,374,514</b> | <b>74,982,356</b>  |
| <b>Cash flows from investing activities:</b>  |       |                    |                    |
| Decrease in available for sale securities   |       | 270,569            | 995,067            |
| Net additions to property and equipment   |       | (5,924,253)        | (2,469,154)        |
| Change in consolidated investment structure   | 5     | 457,338            | -                  |
| (Acquisition) / disposal of investments   | 5     | (45,730)           | 208,924            |
| Inflation effect on investment activities   |       | 938,416            | 2,265,877          |
| <b>Net cash used in investing activities</b>  |       | <b>(4,303,660)</b> | <b>1,000,714</b>   |
| <b>Cash flows from financing activities:</b>  |       |                    |                    |
| Dividends and donation paid   |       | (629,459)          | (1,233,591)        |
| Cash flows from other financial institutions  | 11    | 9,625,003          | -                  |
| <b>Net cash provided from / (used in) financing activities</b>                                |       | <b>8,995,544</b>   | <b>(1,233,591)</b> |
| <b>Net increase / (decrease) in cash and cash equivalents</b>                                 |       | <b>215,066,398</b> | <b>74,749,479</b>  |
| Cash and cash equivalents   |       |                    |                    |
| At beginning of the year  | 3     | 60,677,059         | 62,293,276         |
| Inflation effect on cash and cash equivalents   |       | (77,203,126)       | (76,365,696)       |
| At end of the year  | 3     | 198,540,331        | 60,677,059         |

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 millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

|   | <b>Share<br/>capital</b> | <b>Adjustments to<br/>share capital</b> | <b>Retained<br/>earnings</b> | <b>Shareholders'<br/>equity<br/>total</b> |
|---|--------------------------|---|------------------------------|---|
| Balance at 1 January 2000                                     | 11,025,000               | 17,217,168                              | 15,528,235                   | 43,770,403                                |
| Transfer to share capital                                     | 300,000                  | 36,600                                  | (336,600)                    | -   |
| Non-cash increase in<br>share capital                         | 10,305,000               | (10,305,000)                            | -                            | -   |
| Cash dividends  | -                        | -                                       | (168,752)                    | (168,752)                                 |
| Cash donation   | -                        | -                                       | (1,064,839)                  | (1,064,839)                               |
| Net income for the year                                       | -                        | -                                       | 3,587,218                    | 3,587,218                                 |
| <b>Balance at 31 December 2000</b>                            | <b>21,630,000</b>        | <b>6,948,768</b>                        | <b>17,545,262</b>            | <b>46,124,030</b>                         |
| <b>Balance at 1 January 2001</b>                              |                          |   |                              |   |
| <b>-as previously reported</b>                                | <b>21,630,000</b>        | <b>6,948,768</b>                        | <b>17,545,262</b>            | <b>46,124,030</b>                         |
| -Effect of adopting IAS 39, net of tax                        | -                        | -                                       | (75,992)                     | (75,992)                                  |
| <b>-as restated</b>   | <b>21,630,000</b>        | <b>6,948,768</b>                        | <b>17,469,270</b>            | <b>46,048,038</b>                         |
| Non-cash increase in<br>share capital                         | 15,000,000               | (15,000,000)                            | -                            | -   |
| Effect of consolidation of<br>subsidiary undertaking (Note 2) | -                        | -                                       | (3,632,281)                  | (3,632,281)                               |
| Cash dividends  | -                        | -                                       | (114,076)                    | (114,076)                                 |
| Cash donation   | -                        | -                                       | (515,383)                    | (515,383)                                 |
| Net income for the year                                       | -                        | -                                       | 2,485,702                    | 2,485,702                                 |
| <b>Balance at 31 December 2001</b>                            | <b>36,630,000</b>        | <b>(8,051,232)</b>                      | <b>15,693,232</b>            | <b>44,272,000</b>                         |

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

## KUVEYT TÜRK EVKAF F NANS KURUMU A. .

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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#### 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 2001, the Institution had 29 branches (2000: 24 branches) that were principally engaged in collecting funds through current accounts and profit/loss sharing accounts, and disbursing funds to the customers. As at 31 December 2001, the Institution had 445 employees (2000: 449 employees). The Institution's head office is located at Büyükdere cad. No: 97, 80300 Mecidiyeköy / 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: 99/8-9, Mecidiyeköy, stanbul, Turkey. The Company is currently engaged in three projects in different parts in Turkey. The first project is in Güre-Edremit, Bal kesir which includes the construction of 204 "time-sharing" houses. The second project is in Hasbahçe-Büyüçekmece, Istanbul, which includes 7 villas. The third and last project is in Bodrum, Mu la, which includes 4 villas. The Company's main sources of revenue are from the sales of these projects and expert valuations carried for third parties.

In accordance with the Banking Law No: 4389 the Institution is required to comply with banking legislation applicable in Turkey within one year.

On 22 February 2001, due to the turmoil in the Turkish financial sector, the Turkish government concluded that the managed exchange rate was no longer sustainable. The crawling-peg system, which had limited the depreciation of the local currency, was then abandoned in favour of a free-floating exchange rate. As at 5 March 2002, the Turkish lira has depreciated in excess of 105% when compared to the exchange rates prevailing at 1 January 2001. In May 2001, the Turkish government issued a letter of intent addressed to the IMF Board depicting the New Economic Programme. The restructuring of the banking system and stabilisation of the financial markets is one of the ultimate aims of the New Economic Programme.

#### 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 Institution and its subsidiary maintain their books of account and prepare their statutory financial statements in accordance with the Turkish Commercial Code and tax legislation and the relevant rules and regulations of the Banking Regulation and Supervision Agency ("BRSA"), 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 (except for the revaluation of property and equipment as discussed in Note 10), with adjustments and reclassifications for the purpose of fair presentation in accordance with International Accounting Standards ("IAS") issued by International Accounting Standards Committee.

In 2001, the Institution adopted IAS 39 "Financial Instruments: Recognition and Measurement". Information about the financial effects of adopting IAS 39 is summarised in the consolidated statement of changes in shareholders' equity. Further information is disclosed in these consolidated financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER**

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Prior to adoption of IAS 39, all debt and equity securities, except for trading securities, were measured at cost as adjusted for the amortisation of premiums or discounts on purchases over the period to maturity or cost respectively, providing only for permanent value impairments. IAS 39 has been applied prospectively in accordance with the requirements of this standard, and therefore, comparative financial information has not been restated.

The restatement for changes in the general purchasing power of the Turkish lira as of 31 December 2001 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 2001 and 2000 are given below:

| <b><u>Date</u></b>      | <b><u>Index</u></b> | <b><u>Conversion factor</u></b> |
|-------------------------|---------------------|---------------------------------|
| <b>31 December 2001</b> | <b>4,951.7</b>      | <b>1.000</b>                    |
| 31 December 2000        | 2,626.0             | 1.886                           |
| 31 December 1999        | 1,979.5             | 2.501                           |

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.
- Comparative financial statements are restated using general inflation indices at the currency purchasing power at the latest balance sheet date.
- 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 statements of income as net gain or loss on net monetary position.

# KUVEYT TÜRK EVKAF F NANS KURUMU A. .

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Consolidation

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 fully consolidated in 2001. All material balances and transactions between the Institution and subsidiary are eliminated in the consolidated financial statements.

| <u>Name of subsidiary</u>   | <u>Country of incorporation</u> | <u>Shareholding %</u>   |                         |
|---|---------------------------------|-------------------------|-------------------------|
|   |                                 | <u>31 December 2001</u> | <u>31 December 2000</u> |
| Körfez Gayrimenkul n aat Taahhüt<br>Turizm San. ve Tic. A. . (“Körfez Gayrimenkul”) | Turkey                          | 99.00                   | 99.00                   |

Principal activities of Körfez Gayrimenkul include sales of construction projects (mainly time share houses) and expert valuations carried for third parties.

As at 31 December 2000, Körfez Gayrimenkul was not consolidated on the grounds of immateriality.

#### (c) Available for sale securities

Available for sale securities (except unlisted equity securities which are measured at cost after deduction for any impairment) are stated at fair value based on quoted bid prices. All movements in fair value are included in the consolidated statement of income. Effective from 1 January 2001, due to the adoption of IAS 39, the unconsolidated subsidiaries of the Institution which are unlisted have been classified under available for sale securities on the grounds of immateriality. The Institution is not able to make an estimate of the fair value that is sufficiently reliable for the subsidiaries due to the high variability in the range of reasonable estimates and various outcome probabilities to assess the usefulness of a single estimate (Note 5).

#### (d) Related parties

For the purpose of these 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 CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER**

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**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 bad and doubtful debt 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, 20% of the risk is charged to income statement, and 80% 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. 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. 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  |
| Office furniture and equipment | 4-5 years |
| Motor vehicles                 | 4-5 years |
| Leasehold improvements         | 5 years   |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER**

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**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) 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.

**(j) 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 Labour Law (Note 15).

**(k) 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.r). 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.

**(l) Due to other financial institutions**

Due to other financial institutions initially recognised at cost, being their issue proceeds net of transaction costs incurred. Subsequently, borrowings 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 due to other financial institutions using the value implicit in the agreement.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER**

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(m) Income and expense recognition**

Income and expenses are recognised on accrual basis except for fees and commissions. Fee and commission income and expenses and banking service income 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.

**(n) Profit/loss sharing account income recognition**

Income from funds invested from profit/loss sharing accounts is accrued at year-end 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. 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.

**(o) 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.

**(p) Cash and cash equivalents**

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

**(q) 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.

**(r) 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 of Turkish lira against foreign currencies is managed by investing in foreign currency assets.

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The table below summarises the Institution's exposure to foreign currency exchange rate risk at 31 December 2001 and 2000. Included in the table are the Institution's assets and liabilities at carrying amounts, categorised by currency.

**31 December 2001**

|   | <b>TL</b>         | <b>US\$</b>         | <b>EUR</b>         | <b>Other</b>     | <b>Total</b>       |
|---|-------------------|---------------------|--------------------|------------------|--------------------|
| Cash and due from banks   | 18,004,696        | 99,002,002          | 75,621,560         | 5,912,073        | 198,540,331        |
| Blocked accounts at the<br>Central Bank of Turkey               | 2,073,531         | 54,368,779          | 13,027,379         | 9,459            | 69,479,148         |
| Available for sale securities                                   | 707,171           | 743,975             | -                  | -                | 1,451,146          |
| Due from financing activities, net                              | 30,448,256        | 145,023,827         | 80,812,267         | -                | 256,284,350        |
| Investment in leases, net                                       | 820,805           | 66,358,429          | 28,831,791         | -                | 96,011,025         |
| Other assets  | 9,534,167         | 8,267,665           | 625,613            | -                | 18,427,445         |
| Construction projects, net                                      | 7,763,502         | 2,140,876           | -                  | -                | 9,904,378          |
| Property and equipment, net                                     | 14,057,732        | -                   | -                  | -                | 14,057,732         |
| Intangible assets, net  | 13,267            | -                   | -                  | -                | 13,267             |
| Deferred tax asset, net   | 5,482,239         | -                   | -                  | -                | 5,482,239          |
| <b>Total assets</b>   | <b>88,905,366</b> | <b>375,905,553</b>  | <b>198,918,610</b> | <b>5,921,532</b> | <b>669,651,061</b> |
| Due to other financial institutions                             | -                 | 9,625,003           | -                  | -                | 9,625,003          |
| Current accounts and profit/loss<br>sharing investors' accounts | 43,944,079        | 420,619,457         | 132,153,070        | 4,102,767        | 600,819,373        |
| Taxes on income   | 249,272           | -                   | -                  | -                | 249,272            |
| Withholdings and other taxes<br>payable                         | 2,491,438         | -                   | -                  | -                | 2,491,438          |
| Other liabilities   | 2,578,540         | 1,842,817           | 7,128,741          | -                | 11,550,098         |
| Reserve for employment<br>termination benefits                  | 643,877           | -                   | -                  | -                | 643,877            |
| <b>Total liabilities</b>  | <b>49,907,206</b> | <b>432,087,277</b>  | <b>139,281,811</b> | <b>4,102,767</b> | <b>625,379,061</b> |
| <b>Net balance sheet position</b>                               | <b>38,998,160</b> | <b>(56,181,724)</b> | <b>59,636,799</b>  | <b>1,818,765</b> | <b>44,272,000</b>  |

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)****31 December 2000**

|   | <b>TL</b>         | <b>US\$</b>        | <b>DM</b>         | <b>Other</b>       | <b>Total</b>       |
|---|-------------------|--------------------|-------------------|--------------------|--------------------|
| Cash and due from banks   | 5,546,790         | 44,084,553         | 5,399,195         | 5,646,521          | 60,677,059         |
| Blocked accounts at the<br>Central Bank of Turkey               | 3,304,272         | 40,717,854         | -                 | 11,945,691         | 55,967,817         |
| Available for sale securities                                   | 927,453           | 628,372            | -                 | 577,499            | 2,133,324          |
| Due from financing activities, net                              | 55,356,467        | 244,474,852        | 60,680,919        | 1,391,285          | 361,903,523        |
| Investment in leases, net                                       | 10,809,983        | 34,751,140         | 32,099,103        | -                  | 77,660,226         |
| Other assets  | 5,983,848         | 1,326,827          | 113,063           | 437,033            | 7,860,771          |
| Property and equipment, net                                     | 10,206,234        | -                  | -                 | -                  | 10,206,234         |
| Deferred tax asset, net   | 7,368,362         | -                  | -                 | -                  | 7,368,362          |
| <b>Total assets</b>   | <b>99,503,409</b> | <b>365,983,598</b> | <b>98,292,280</b> | <b>19,998,029</b>  | <b>583,777,316</b> |
| Current accounts and profit/loss<br>sharing investors' accounts | 44,540,364        | 373,366,209        | 92,142,574        | 21,362,366         | 531,411,513        |
| Taxes on income   | 477,822           | -                  | -                 | -                  | 477,822            |
| Withholdings and other taxes<br>payable                         | 1,535,463         | -                  | -                 | -                  | 1,535,463          |
| Other liabilities   | 3,379,367         | 469,410            | 2,480             | 5,148              | 3,856,405          |
| Reserve for employment<br>termination benefits                  | 372,083           | -                  | -                 | -                  | 372,083            |
| <b>Total liabilities</b>  | <b>50,305,099</b> | <b>373,835,619</b> | <b>92,145,054</b> | <b>21,367,514</b>  | <b>537,653,286</b> |
| <b>Net balance sheet position</b>                               | <b>49,198,310</b> | <b>(7,852,021)</b> | <b>6,147,226</b>  | <b>(1,369,485)</b> | <b>46,124,030</b>  |

Foreign currency assets and liabilities are evaluated by using the Institution's foreign currency bid rate for US\$1 = TL1,436,800, EUR1 = TL1,265,821 and DM1 = TL647,207 at 31 December 2001.

**(s) Liquidity risk**

Liquidity risk is the possibility that the Institution will be unable to fund 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 have 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.

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

| <b>31 December 2001 (TL billion)</b>                            | Demand and<br>less than 1<br>month | 1 to 3<br>months | 3 to 12<br>months | Over<br>1 year | No<br>maturity | Total          |
|---|------------------------------------|------------------|-------------------|----------------|----------------|----------------|
| <b>ASSETS</b>   |                                    |                  |                   |                |                |                |
| Cash and due from banks   | 197,103                            | -                | 1,437             | -              | -              | 198,540        |
| Blocked accounts at Central<br>Bank of Turkey                   | -                                  | 8,067            | -                 | -              | 61,412         | 69,479         |
| Available for sale securities                                   | 1,318                              | -                | -                 | -              | 133            | 1,451          |
| Due from financing activities, net                              | 21,405                             | 43,066           | 102,992           | 64,142         | 24,679         | 256,284        |
| Investments in leases, net                                      | 6,568                              | 13,214           | 31,602            | 44,627         | -              | 96,011         |
| Other assets  | 10,877                             | -                | -                 | -              | 7,550          | 18,427         |
| Construction projects, net                                      | 512                                | 20               | 1,609             | -              | 7,764          | 9,905          |
| Property and equipment  | -                                  | -                | -                 | -              | 14,058         | 14,058         |
| Intangibles   | -                                  | -                | -                 | -              | 13             | 13             |
| Deferred tax asset  | -                                  | -                | -                 | 5,482          | -              | 5,482          |
| <b>Total assets</b>   | <b>237,783</b>                     | <b>64,367</b>    | <b>137,640</b>    | <b>114,251</b> | <b>115,609</b> | <b>669,650</b> |
| <b>LIABILITIES</b>  |                                    |                  |                   |                |                |                |
| Due to other financial institutions                             | -                                  | 8,149            | 1,476             | -              | -              | 9,625          |
| Current accounts and profit/loss<br>sharing investors' accounts | 439,064                            | 98,768           | 26,121            | 36,866         | -              | 600,819        |
| Taxes on income   | 249                                | -                | -                 | -              | -              | 249            |
| Withholdings and other taxes payable                            | 2,491                              | -                | -                 | -              | -              | 2,491          |
| Other liabilities   | 1,384                              | 8,510            | -                 | 1,656          | -              | 11,550         |
| Reserve for employment termination<br>benefits                  | -                                  | -                | -                 | 644            | -              | 644            |
| <b>Total liabilities</b>  | <b>443,188</b>                     | <b>115,427</b>   | <b>27,597</b>     | <b>39,166</b>  | <b>-</b>       | <b>625,378</b> |
| <b>Net liquidity gap</b>  | <b>(205,405)</b>                   | <b>(51,060)</b>  | <b>110,043</b>    | <b>75,085</b>  | <b>115,609</b> | <b>44,272</b>  |



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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

| <b>31 December 2000 (TL billion)</b>                            | Demand and<br>less than 1<br>month | 1 to 3<br>months | 3 to 12<br>months | Over<br>1 year | No<br>maturity | Total          |
|---|------------------------------------|------------------|-------------------|----------------|----------------|----------------|
| <b>ASSETS</b>   |                                    |                  |                   |                |                |                |
| Cash and due from banks   | 56,908                             | -                | 3,769             | -              | -              | 60,677         |
| Blocked accounts at Central<br>Bank of Turkey                   | -                                  | -                | -                 | -              | 55,968         | 55,968         |
| Available for sale securities                                   | 1,677                              | -                | -                 | -              | 456            | 2,133          |
| Due from financing activities, net                              | 49,933                             | 84,956           | 199,032           | 14,715         | 13,268         | 361,904        |
| Investments in leases, net                                      | 6,794                              | 11,616           | 27,977            | 31,273         | -              | 77,660         |
| Other assets  | 277                                | 979              | 1,471             | 698            | 4,436          | 7,861          |
| Property and equipment  | -                                  | -                | -                 | -              | 10,206         | 10,206         |
| Deferred tax asset  | -                                  | -                | -                 | 7,368          | -              | 7,368          |
| <b>Total assets</b>   | <b>115,589</b>                     | <b>97,551</b>    | <b>232,249</b>    | <b>54,054</b>  | <b>84,334</b>  | <b>583,777</b> |
| <b>LIABILITIES</b>  |                                    |                  |                   |                |                |                |
| Current accounts and profit/loss<br>sharing investors' accounts | 348,110                            | 107,898          | 29,227            | 46,177         | -              | 531,412        |
| Taxes on income   | 478                                | -                | -                 | -              | -              | 478            |
| Withholdings and other taxes payable                            | 1,535                              | -                | -                 | -              | -              | 1,535          |
| Other liabilities   | 837                                | 1,148            | 1,510             | 361            | -              | 3,856          |
| Reserve for employment termination<br>benefits                  | -                                  | -                | -                 | 372            | -              | 372            |
| <b>Total liabilities</b>  | <b>350,960</b>                     | <b>109,046</b>   | <b>30,737</b>     | <b>46,910</b>  | <b>-</b>       | <b>537,653</b> |
| <b>Net liquidity gap</b>  | <b>(235,371)</b>                   | <b>(11,495)</b>  | <b>201,511</b>    | <b>7,144</b>   | <b>84,334</b>  | <b>46,124</b>  |

# KUVEYT TÜRK EVKAF F NANS KURUMU A. .

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (t) 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 2001

| Assets                        | US\$ % | EUR % | TL %  | Other % |
|-------------------------------|--------|-------|-------|---------|
| Cash and due from banks       | 4.7    | 3.5   | 44.9  | 6.9     |
| Due from financing activities | 20.0   | 16.6  | 103.0 | -       |
| Investments in leases, net    | 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 | - |

#### 31 December 2000

| Assets                        | US\$ % | DM % | TL % | Other % |
|-------------------------------|--------|------|------|---------|
| Cash and due from banks       | 5.9    | 3.4  | 33.9 | 6.9     |
| Due from financing activities | 13.8   | 14.5 | 57.6 | -       |
| Investments in leases, net    | 26.4   | 18.8 | 49.1 | -       |

#### Liabilities

|  |     |     |      |   |
|--|-----|-----|------|---|
| Current accounts and profit/loss sharing investors' accounts | 5.7 | 5.8 | 35.0 | - |
|--|-----|-----|------|---|

#### (u) 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.

## KUVEYT TÜRK EVKAF F NANS KURUMU A. .

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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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.

#### (v) Comparatives

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

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 3 - CASH AND DUE FROM BANKS**

|                               | <b>2001</b>        | <b>2000</b>       |
|-------------------------------|--------------------|-------------------|
| Cash :                        |                    |                   |
| Turkish lira                  | 3,851,498          | 1,828,980         |
| Foreign currency              | 19,873,221         | 6,339,226         |
|                               | <b>23,724,719</b>  | <b>8,168,206</b>  |
| Due from banks :              |                    |                   |
| Foreign banks                 |                    |                   |
| - Turkish lira                | 11,650,966         | -                 |
| - Foreign currency            | 120,275,200        | 36,280,688        |
| Central Bank of Turkey        |                    |                   |
| - Turkish lira                | 54,710             | 25,903            |
| - Foreign currency            | 45,407             | 845,832           |
| Domestic banks                |                    |                   |
| - Turkish lira                | 2,379,295          | 3,661,731         |
| - Foreign currency            | 39,369,301         | 11,038,397        |
| Special finance institutions  |                    |                   |
| - Turkish lira                | 68,227             | 30,176            |
| - Foreign currency            | 972,506            | 626,126           |
|                               | 174,815,612        | 52,508,853        |
| Total cash and due from banks | <b>198,540,331</b> | <b>60,677,059</b> |

Foreign currency cash includes the following:

|       | <b>2001</b>                 |                   | <b>2000</b>                 |                   |
|-------|-----------------------------|-------------------|-----------------------------|-------------------|
|       | <b>Foreign<br/>currency</b> | <b>TL million</b> | <b>Foreign<br/>currency</b> | <b>TL million</b> |
| US\$  | 5,373,892                   | 7,721,208         | 3,408,707                   | 4,283,871         |
| DM    | 7,253,926                   | 4,694,791         | 2,856,859                   | 1,698,214         |
| EUR   | 5,600,000                   | 7,088,597         | -                           | -                 |
| Other |                             | 368,625           |                             | 357,141           |
|       |                             | <b>19,873,221</b> |                             | <b>6,339,226</b>  |

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**NOTE 3 - CASH AND DUE FROM BANKS (Continued)**

Foreign banks include the following profit and loss sharing accounts with maturities up to 1 month (2000: 1 month).

|      | <u>Principal 2001</u>    |                    | <u>Value at maturity</u> | <u>Principal 2000</u>    |                   | <u>Value at maturity</u> |
|------|--------------------------|--------------------|--------------------------|--------------------------|-------------------|--------------------------|
|      | <u>Original currency</u> | <u>TL million</u>  | <u>Original currency</u> | <u>Original currency</u> | <u>TL million</u> | <u>Original currency</u> |
| US\$ | 46,000,000               | 66,092,800         | 46,081,290               | 12,450,000               | 15,646,459        | 12,504,624               |
| EUR  | 28,000,000               | 35,442,988         | 28,079,220               | -                        | -                 | -                        |
| KWD  | -                        | -                  | -                        | 311,622                  | 1,282,432         | 312,160                  |
| TL   | 11,500,000               | 11,500,000         | 11,832,611               | -                        | -                 | -                        |
|      |                          | <b>113,035,788</b> |                          |                          | <b>16,928,891</b> |                          |

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Foreign banks include the following profit and loss sharing accounts with maturities of 4 months (2000: 4 months):

|      | <u>Principal 2001</u>    |                   | <u>Value at maturity</u> | <u>Principal 2000</u>    |                   | <u>Value at maturity</u> |
|------|--------------------------|-------------------|--------------------------|--------------------------|-------------------|--------------------------|
|      | <u>Original currency</u> | <u>TL million</u> | <u>Original currency</u> | <u>Original currency</u> | <u>TL million</u> | <u>Original currency</u> |
| US\$ | 1,000,000                | 1,436,800         | 1,001,961                | 3,000,000                | 3,770,231         | 3,119,853                |

# KUVEYT TÜRK EVKAF F NANS KURUMU A. .

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

### 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>2001</u>                 |                   | <u>2000</u>                 |                   |
|--------|-----------------------------|-------------------|-----------------------------|-------------------|
|        | <u>Foreign<br/>currency</u> | <u>TL million</u> | <u>Foreign<br/>currency</u> | <u>TL million</u> |
| TL     | -                           | 2,073,531         | -                           | 3,304,272         |
| US\$   | 37,840,186                  | 54,368,779        | 32,399,488                  | 40,717,853        |
| EUR    | 10,291,644                  | 13,027,379        | 10,269,400                  | 11,939,352        |
| Others | -                           | 9,459             | -                           | 6,340             |
|        |                             | <b>69,479,148</b> |                             | <b>55,967,817</b> |

As of 31 December 2001, TL8,067,201 million (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).

According to the Decree no 7 published in the Official Gazette 23515 dated 6 November 1998, the Institution is liable to hold 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<br/>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.

## KUVEYT TÜRK EVKAF F NANS KURUMU A. .

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

#### NOTE 5 - AVAILABLE FOR SALE SECURITIES

|  | 2001             | 2000             |
|--|------------------|------------------|
| Common stocks  | 574,513          | 1,047,614        |
| Participation fund   | 743,975          | 628,372          |
| G.A.P. Boru San. ve Tic. A. . (*)  | 86,928           | 86,928           |
| Körfez Tatil Beldesi Turistik Tesisler ve<br>Devremülk İletmecili İ A. . (*) | 45,730           | -                |
| Körfez Gayrimenkul İnaat Taahhüt<br>Turizm San. ve Tic. A. . (**)            | -                | 370,410          |
|  | <b>1,451,146</b> | <b>2,133,324</b> |

(\*) Effective from 1 January 2001, due to the adoption of IAS 39, the unconsolidated subsidiaries of the Institution ("G.A.P. Boru San. ve Tic. A. ." and "Körfez Tatil Beldesi Turistik Tesisler ve Devremülk İletmecili İ A. .") are classified under available for sale securities and they are not consolidated on the grounds of immateriality.

(\*\*) As at 31 December 2000, Körfez Gayrimenkul İnaat Taahhüt Turizm San. ve Tic. A. . was not consolidated on the grounds of immateriality (Note 2), whereas it has been consolidated for the year 2001.

Participation fund represents investment to Unit Investment Fund of Islamic Development Fund in the amount of US\$517,800 (2000: US\$500,000). Common stock includes various shares traded in the Istanbul Stock Exchange (2000: various shares traded in the Istanbul Stock Exchange, shares of Kuwait Finance House (shareholder) and the International Investor).

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**NOTE 6 - DUE FROM FINANCING ACTIVITIES, NET**

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

|  | <b>2001</b>        | <b>2000</b>        |
|--|--------------------|--------------------|
| <b>Performing:</b>   |                    |                    |
| Funds invested from<br>profit/loss sharing accounts                      | 200,943,690        | 286,835,878        |
| Funds invested from<br>current accounts and equity                       | 18,577,811         | 40,195,981         |
|  | <b>219,521,501</b> | <b>327,031,859</b> |
| <b>Non-performing:</b>   |                    |                    |
| Funds invested from profit / loss sharing accounts                       | 48,162,191         | 26,722,666         |
| Funds invested from current accounts and equity                          | 14,145,288         | 11,125,061         |
| Income accruals on due from financing activities                         | 12,083,408         | 21,604,267         |
| <b>Total due from financing activities</b>                               | <b>293,912,388</b> | <b>386,483,853</b> |
| <b>Provision for doubtful receivables :</b>                              |                    |                    |
| Funds invested from current accounts and equity                          | (18,698,635)       | (7,338,434)        |
| Funds invested from profit / loss<br>sharing accounts - Turkish lira     | (3,794,440)        | (2,174,481)        |
| Funds invested from profit / loss sharing accounts -<br>foreign currency | (15,134,963)       | (15,067,415)       |
| <b>Total due from financing activities, net</b>                          | <b>256,284,350</b> | <b>361,903,523</b> |



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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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

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

|                         | <b>2001</b>        | <b>2000</b>        |
|-------------------------|--------------------|--------------------|
| Textile and leather     | 46,421,950         | 69,886,125         |
| Food and beverage       | 44,413,523         | 49,328,690         |
| Construction            | 20,729,863         | 24,547,042         |
| Metal products          | 18,845,685         | 20,523,812         |
| Chemicals and petroleum | 11,558,457         | 27,638,370         |
| Paper                   | 10,105,253         | 8,654,112          |
| Electronics             | 9,298,649          | 3,335,455          |
| Automotive              | 8,306,304          | 24,979,820         |
| Forestry                | 8,005,270          | 13,865,329         |
| Leasing                 | 4,323,946          | 17,963,125         |
| Computer                | 3,879,622          | 5,550,733          |
| Other industries        | 33,632,979         | 60,759,246         |
|                         | <b>219,521,501</b> | <b>327,031,859</b> |

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

|   | <b>2001</b>       | <b>2000</b>       |
|---|-------------------|-------------------|
| Balance at 1 January 2001                     | 24,580,330        | 33,678,686        |
| Provisions - Institution                      | 15,247,356        | 12,888,227        |
| Provisions - customers                        | 37,637,058        | 22,790,608        |
| Recoveries of amounts previously provided for | (5,989,119)       | (2,034,029)       |
| Amounts written off                           | -                 | (35,361,023)      |
| Inflation effect                              | (33,847,587)      | (7,382,139)       |
| <b>Balance at 31 December 2001</b>            | <b>37,628,038</b> | <b>24,580,330</b> |

As explained in Note 2.e., when the funds disbursed from profit and loss sharing accounts are considered impaired, 20% of the risk is charged to income statement, and 80% 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.

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 7 - INVESTMENT IN LEASES, NET**

|   | <b>2001</b>        | <b>2000</b>       |
|---|--------------------|-------------------|
| Gross investment in leases                    | 137,222,622        | 102,379,888       |
| Unearned finance income                       | (31,662,558)       | (23,692,828)      |
| <b>Total investment in leases</b>             | <b>105,560,064</b> | <b>78,687,060</b> |
| Provision for impairment in lease receivables | (9,549,039)        | (1,026,834)       |
| <b>Investment in leases, net</b>              | <b>96,011,025</b>  | <b>77,660,226</b> |

Movement in provisions for impairment in leases is as follows:

|                                    |                  |  |
|------------------------------------|------------------|--|
| Balance at 1 January 2001          | 1,026,834        |  |
| Provisions - Institution           | 3,148,874        |  |
| Provisions - Customers             | 6,651,664        |  |
| Inflation effect                   | (1,278,333)      |  |
| <b>Balance at 31 December 2001</b> | <b>9,549,039</b> |  |

**NOTE 8 - OTHER ASSETS**

|   | <b>2001</b>       | <b>2000</b>      |
|---|-------------------|------------------|
| Assets held for disposal (in satisfaction of funds disbursed) | 7,550,003         | 4,454,808        |
| Transitory accounts   | 7,340,154         | 1,730,625        |
| Advances and deposits given                                   | 2,455,682         | 1,383,840        |
| Commission receivables from correspondent banks               | 322,931           | -                |
| Value added tax (VAT) receivable                              | 219,762           | 238,000          |
| Other   | 538,913           | 53,498           |
|   | <b>18,427,445</b> | <b>7,860,771</b> |

**NOTE 9 - CONSTRUCTION PROJECTS, NET**

|   | <b>2001</b>      | <b>2000</b> |
|---|------------------|-------------|
| Completed construction projects (inventories) | 7,763,502        | -           |
| Receivables from construction projects        | 4,040,570        | -           |
| (Less) Provision for doubtful receivables     | (1,899,694)      | -           |
|   | <b>9,904,378</b> | <b>-</b>    |

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 10 - PROPERTY AND EQUIPMENT, NET**

| <b>At 31 December 2001</b>                    | <b>Buildings</b> | <b>Furniture and office equipment</b> | <b>Motor vehicles</b> | <b>Leasehold improvements</b> | <b>Total</b>      |
|---|------------------|---------------------------------------|-----------------------|-------------------------------|-------------------|
| Opening net book value - as previously stated | 6,219,020        | 3,028,198                             | 263,154               | 695,862                       | 10,206,234        |
| Opening net book value - consolidated         | 6,219,020        | 3,073,339                             | 280,862               | 695,862                       | 10,269,083        |
| Additions                                     | 2,769,223        | 2,384,414                             | 19,428                | 609,579                       | 5,782,644         |
| Disposals                                     | -                | (73,241)                              | (102,359)             | (100,325)                     | (275,925)         |
| Depreciation charge                           | (175,133)        | (1,183,158)                           | (63,559)              | (296,220)                     | (1,718,070)       |
| <b>Closing net book value</b>                 | <b>8,813,110</b> | <b>4,201,354</b>                      | <b>134,372</b>        | <b>908,896</b>                | <b>14,057,732</b> |
| At 31 December 2001                           |                  |                                       |                       |                               |                   |
| Cost  | 10,855,801       | 14,154,321                            | 1,030,478             | 2,481,713                     | 28,522,313        |
| Accumulated depreciation                      | (2,042,691)      | (9,952,967)                           | (896,106)             | (1,572,817)                   | (14,464,581)      |
| <b>Closing net book value</b>                 | <b>8,813,110</b> | <b>4,201,354</b>                      | <b>134,372</b>        | <b>908,896</b>                | <b>14,057,732</b> |

Since 1984, using an option granted under Turkish tax legislation, the Institution revalued in its statutory books of account, its property and equipment in use more than one year, and the related accumulated depreciation at each year-end, by using the rates and procedures prescribed by the Ministry of Finance to reflect the effects of inflation on the value of the Turkish lira. The resulting increases in the net book values of the assets are included under shareholders' equity as revaluation surplus in the statutory records. The Institution may use the revaluation surplus for issuance of free capital shares to existing shareholders. However, if the revaluation increment is included in an account other than the revaluation surplus account, the amount is subject to corporation tax.

In the Institution's statutory books depreciation is provided on revalued amounts, except for the net revaluation increment applicable to buildings, and such depreciation is deductible in the computation of income subject to corporation tax. All entries related to such revaluation which were recorded in statutory books of account of the Institution have been eliminated in the accompanying financial statements as part of the restatement process referred to in Note 2.a.

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 11 - DUE TO OTHER FINANCIAL INSTITUTIONS**

|   | <b>2001</b>      | <b>2000</b> |
|---|------------------|-------------|
| Kuwait Finance House (Shareholder - Note 22.v.) | 9,625,003        | -           |
|   | <b>9,625,003</b> | <b>-</b>    |

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

| <b>Currency</b> | <b>Amount in<br/>foreign currency</b> | <b>Amount in<br/>TL million</b> | <b>Amortised cost in<br/>TL million</b> | <b>Maturity</b> | <b>Effective<br/>rate (%)</b> |
|-----------------|---------------------------------------|---------------------------------|---|-----------------|-------------------------------|
| US\$            | 5,500,000                             | 7,902,400                       | 8,148,636                               | 11.03.2002      | 5.44-5.68                     |
| US\$            | 1,000,000                             | 1,436,800                       | 1,476,367                               | 11.05.2002      | 5.48                          |
|                 |                                       | <b>9,339,200</b>                | <b>9,625,003</b>                        |                 |                               |

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

|   | <b>2001</b>        | <b>2000</b>        |
|---|--------------------|--------------------|
| Current accounts:   |                    |                    |
| Turkish lira  | 21,370,424         | 12,816,404         |
| Foreign currency  | 64,543,759         | 38,949,503         |
|   | <b>85,914,183</b>  | <b>51,765,907</b>  |
| Profit/loss sharing investors' accounts:  |                    |                    |
| Turkish lira  | 21,573,664         | 30,081,990         |
| Foreign currency  | 492,331,535        | 447,921,647        |
|   | <b>513,905,199</b> | <b>478,003,637</b> |
| Total current accounts and profit/loss inventors' accounts                      | <b>599,819,382</b> | <b>529,769,544</b> |
| Expense accrual on current accounts and profit/loss sharing investors' accounts | 999,991            | 1,641,969          |
| Total current accounts and profit/loss sharing investors' accounts              | <b>600,819,373</b> | <b>531,411,513</b> |

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

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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

|                           | <b>2001</b>                        |  | <b>2000</b>                        |  |
|---------------------------|------------------------------------|--|------------------------------------|--|
|                           | <b>Turkish lira<br/>TL million</b> | <b>Foreign<br/>currency<br/>TL million</b> | <b>Turkish lira<br/>TL million</b> | <b>Foreign<br/>currency<br/>TL million</b> |
| Up to 1 month             | 36,258,837                         | 401,805,820                                | 25,521,871                         | 321,488,640                                |
| From 1 month to 3 months  | 3,466,450                          | 95,301,077                                 | 7,640,318                          | 99,715,230                                 |
| From 3 months to 1 year   | 3,218,801                          | 22,901,919                                 | 5,921,549                          | 23,306,871                                 |
| 370 days special maturity | -                                  | 36,866,478                                 | 3,814,657                          | 42,360,408                                 |
|                           | <b>42,944,088</b>                  | <b>556,875,294</b>                         | <b>42,898,395</b>                  | <b>486,871,149</b>                         |

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

|                          | <b>2001</b>                 |                   | <b>2000</b>                 |                   |
|--------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|                          | <b>Foreign<br/>currency</b> | <b>TL million</b> | <b>Foreign<br/>currency</b> | <b>TL million</b> |
| <u>Current accounts:</u> |                             |                   |                             |                   |
| US\$                     | 30,753,217                  | 44,186,222        | 21,679,311                  | 27,245,338        |
| Euro (DM for 2000)       | 12,953,864                  | 16,397,273        | 7,998,504                   | 4,754,582         |
| Others                   | -                           | 3,960,264         | -                           | 6,949,583         |
|                          |                             | <b>64,543,759</b> |                             | <b>38,949,503</b> |

Profit/loss sharing investors' accounts:

|                    |             |                    |             |                    |
|--------------------|-------------|--------------------|-------------|--------------------|
| US\$               | 261,994,178 | 376,433,235        | 275,410,862 | 346,120,872        |
| Euro (DM for 2000) | 91,447,208  | 115,755,797        | 147,010,407 | 87,387,992         |
| Others             | -           | 142,503            | -           | 14,412,783         |
|                    |             | <b>492,331,535</b> |             | <b>447,921,647</b> |

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**NOTE 13 - TAXES ON INCOME**

The reconciliation of taxation is as follows:

|  | <b>2001</b> | <b>2000</b> |
|--|-------------|-------------|
| Income before taxes per statutory financial statements             | 2,415,189   | 2,475,220   |
| Add/(deduct):  |             |             |
| Disallowable expenses  | 660,679     | 176,668     |
| Provision for severance pay  | 171,768     | 77,311      |
| Income from free trade zone  | (266,922)   | (16,160)    |
| Income deducted from prior year profit                             | 601,298     | 785,993     |
| Income to be realised next year                                    | (1,740,155) | (1,023,691) |
| Other allowances   | (1,841,857) | (62,098)    |
| <hr/>  |             |             |
| Tax basis  | -           | 2,413,243   |
| <hr/>  |             |             |
| Tax thereon at the applicable tax rate 19.8% and 33% (2000: 19.8%) | 249,272     | 477,822     |
| <hr/>  |             |             |
| Inflation adjustment   | 72,977      | 51,605      |
| <hr/>  |             |             |
|  | 322,249     | 529,427     |
| <hr/>  |             |             |
| Deferred tax effect of temporary differences                       | 2,868,257   | (3,942,321) |
| <hr/>  |             |             |
| Total tax charge/(income) for the year                             | 3,190,506   | (3,412,894) |
| <hr/>  |             |             |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER**

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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 15<sup>th</sup> 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 2001 and 2000 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 (2000: 19.8%).

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**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:-

|  | <b>2001</b>                 |               |
|--|-----------------------------|---------------|
|  | <b>Temporary difference</b> | <b>Amount</b> |
| Deferred income tax liabilities  |                             |               |
| Unrealised gain on available for sale securities                             | 37,980                      | 7,520         |
| Accrued income on 'murabaha' transactions                                    | 262,133                     | 51,902        |
| Accrued income on other available for sale securities                        | 25,575                      | 5,064         |
| Restatement of property, equipment, Intangibles and assets held for disposal | 3,661,600                   | 791,466       |
| Effect of other adjustments  | 1,776,964                   | 440,663       |
|  | 5,764,252                   | 1,296,615     |
| Deferred income tax assets   |                             |               |
| Accounting for finance leases  | 15,616,629                  | 3,092,092     |
| Reserve for employment termination benefits (Note 15)                        | 643,877                     | 129,909       |
| Leasing obligation   | 1,095,063                   | 361,371       |
| Tax losses carried forward   | 32,810                      | 10,827        |
| Restatement of construction projects   | 1,464,347                   | 483,234       |
| Unearned finance income  | 139,706                     | 27,662        |
| Provision for doubtful receivables and write offs                            | 8,692,266                   | 1,971,829     |
| Expense accrual of due to other financial institutions                       | 282,178                     | 55,871        |
| Effect of other adjustments  | 2,599,268                   | 646,059       |
|  | 30,566,144                  | 6,778,854     |
| Net deferred income tax asset  | 24,801,892                  | 5,482,239     |



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(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 13 - TAXES ON INCOME (Continued)**

|   | <b>2000</b>                 |                  |
|---|-----------------------------|------------------|
|   | <b>Temporary difference</b> | <b>Amount</b>    |
| Deferred income tax liabilities                       |                             |                  |
| Accrued income on “murabaha” transactions             | 125,263                     | 24,802           |
| Net off of exchange of deposits                       | 3,098                       | 613              |
| Restatement of property and equipment                 | 617,471                     | 122,259          |
|   | <b>745,832</b>              | <b>147,674</b>   |
| Deferred income tax assets                            |                             |                  |
| Accounting for finance leases                         | 32,182,384                  | 6,372,110        |
| Reserve for employment termination benefits (Note 15) | 372,083                     | 68,777           |
| Unrealised loss on marketable securities              | 347,354                     | 73,672           |
| Provision for doubtful receivables and write offs     | 5,057,962                   | 1,001,477        |
|   | <b>37,959,783</b>           | <b>7,516,036</b> |
| Net deferred income tax asset                         | <b>37,213,951</b>           | <b>7,368,362</b> |

The movement in deferred taxes is as follows:

|   | <b>2001</b>      | <b>2000</b>      |
|---|------------------|------------------|
| Deferred tax asset-net at beginning of year |                  |                  |
| - as previously reported                    | 7,368,362        | 3,426,041        |
| - effect of adopting IAS 39                 | 18,761           | -                |
| - effect of consolidation of the subsidiary | 963,373          | -                |
| - as restated at beginning of year          | 8,350,496        | 3,426,041        |
| Expense/(Income) for the year               | (2,868,257)      | 3,942,321        |
| Deferred tax asset-net at end of year       | <b>5,482,239</b> | <b>7,368,362</b> |

# KUVEYT TÜRK EVKAF F NANS KURUMU A. .

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

### NOTE 14 - OTHER LIABILITIES

|                           | 2001              | 2000             |
|---------------------------|-------------------|------------------|
| EURO loading payables (*) | 7,088,598         | -                |
| Payable to suppliers      | 2,130,958         | 1,529,208        |
| Accrued profit payable    | 1,653,559         | -                |
| Expenses payable          | 282,885           | 265,785          |
| Payable to exporter firms | -                 | 1,908,647        |
| Others                    | 394,098           | 152,765          |
|                           | <b>11,550,098</b> | <b>3,856,405</b> |

(\*) The Institution bought 5,600,000 Euro 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 TL978,020,000 (2000: TL587,720,000) 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:

|   | 2001 | 2000 |
|---|------|------|
| Discount rate   | 7%   | 7%   |
| Turnover rate to estimate the probability of retirement | 4%   | 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 TL1,076,400,000 (2000: TL646,563,000) which is effective from 1 January 2002 has been taken into consideration in calculating the reserve for employment termination benefit of the Institution.

# KUVEYT TÜRK EVKAF F NANS KURUMU A. .

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

### NOTE 15 - RESERVE FOR EMPLOYMENT TERMINATION BENEFITS (Continued)

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

|                          | 2001           | 2000           |
|--------------------------|----------------|----------------|
| Balance - 1 January      | 372,083        | 291,211        |
| Paid during the year     | (226,689)      | (40,202)       |
| Increase during the year | 498,483        | 121,074        |
| Balance - 31 December    | <b>643,877</b> | <b>372,083</b> |

### NOTE 16 - SHARE CAPITAL

The Institution's authorised and fully paid-up capital amounts to TL36,630,000 million (2000:TL21,630,000 million), which consists of 366,300,000 shares (2000: 216,300,000 shares) of a nominal value of TL100,000 each. The Institution increased its share capital by TL15,000,000 million (2000: TL10,605,000 million) during 2001. At 31 December, the paid-up capital (in nominal TL) was held as follows:-

|  | Shares % | 2001<br>TL million | Shares % | 2000<br>TL million |
|--|----------|--------------------|----------|--------------------|
| Kuwait Finance House                                   | 49.99    | 18,310,502         | 49.99    | 10,812,344         |
| Vak flar Genel Müdürlü ü                               | 29.90    | 10,952,370         | 29.95    | 6,447,370          |
| The Public Institution for<br>Social Security - Kuwait | 9.00     | 3,296,700          | 9.00     | 1,946,700          |
| Islamic Development Bank                               | 9.00     | 3,296,700          | 9.00     | 1,946,700          |
| Türkiye Diyanet Vakf                                   | 1.00     | 366,300            | 1.00     | 216,300            |
| Others   | 1.11     | 407,428            | 1.06     | 260,586            |
| Historical share capital                               | 100.00   | 36,630,000         | 100.00   | 21,630,000         |
| Adjustment to share capital                            |          | (8,051,232)        |          | 6,948,768          |
| Total share capital                                    |          | <b>28,578,768</b>  |          | <b>28,578,768</b>  |

## KUVEYT TÜRK EVKAF F NANS KURUMU A. .

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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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 :

|                   | <b>2001</b>      | <b>2000</b>      |
|-------------------|------------------|------------------|
| Legal reserves    | 632,347          | 897,434          |
| Retained earnings | 3,112,855        | 3,828,303        |
|                   | <b>3,745,202</b> | <b>4,725,737</b> |

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#### NOTE 18 - FEE AND COMMISSION INCOME

|  | <b>2001</b>       | <b>2000</b>       |
|--|-------------------|-------------------|
| Communication expense charges          | 1,880,852         | 2,635,390         |
| POS commission income                  | 1,824,033         | 367,949           |
| Credit card fees and commissions       | 1,734,503         | 1,232,521         |
| Income from agency activities          | 1,686,429         | 827,266           |
| Banking service commissions            | 1,440,178         | 5,568,964         |
| Letter of guarantee charges            | 718,534           | 824,723           |
| Import letter of credit commissions    | 619,320           | 1,168,712         |
| Electronic fund transfer (EFT) charges | 283,066           | 275,187           |
| Other                                  | 1,018,371         | 1,311,227         |
|  | <b>11,205,286</b> | <b>14,211,939</b> |

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

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**NOTE 19 - INCOME FROM CONSTRUCTION PROJECTS, NET**

|  | <b>2001</b>      | <b>2000</b> |
|--|------------------|-------------|
| Gross revenue from construction projects | 9,014,343        | -           |
| Income from service sales                | 126,382          | -           |
| Cost of construction project sales       | (4,643,513)      | -           |
| Cost of services                         | (169,195)        | -           |
|  | <b>4,328,017</b> | <b>-</b>    |

**NOTE 20 - OTHER EXPENSES**

|  | <b>2001</b>      | <b>2000</b>      |
|--|------------------|------------------|
| Advertising expenses                               | 2,854,219        | 1,804,248        |
| Communication expenses                             | 964,671          | 812,122          |
| Professional fees                                  | 733,650          | 591,794          |
| Profit share expense                               | 710,319          | -                |
| Repair and maintenance expenses                    | 401,395          | 228,704          |
| Travel and representation expenses                 | 376,490          | 294,057          |
| Expenses on due to other financial institutions    | 344,497          | -                |
| Stationery and subscription expenses               | 329,336          | 206,840          |
| Energy expenses                                    | 240,358          | 186,300          |
| Computer system expenses                           | 76,455           | 115,884          |
| Unrealised losses on available for sale securities | 45,129           | 384,869          |
| Other  | 638,774          | 419,952          |
|  | <b>7,715,293</b> | <b>5,044,770</b> |

**NOTE 21 - COMMITMENTS AND CONTINGENT LIABILITIES**

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

|                    | <b>2001</b>       | <b>2000</b>        |
|--------------------|-------------------|--------------------|
| Guarantee letters  | 63,777,596        | 63,276,633         |
| Letters of credit  | 32,667,612        | 42,782,650         |
| Acceptance credits | 1,330,675         | 1,157,231          |
|                    | <b>97,775,883</b> | <b>107,216,514</b> |

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

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 22 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES****i) Due from banks:**

|                      | <u>2001</u>         |                   | <u>2000</u>         |                  |
|----------------------|---------------------|-------------------|---------------------|------------------|
|                      | Foreign<br>currency | TL million        | Foreign<br>currency | TL million       |
| Kuwait Finance House | US\$ 9,011,973      | 12,948,403        | 21,936              | 27,568           |
|                      | EUR 25,897          | 32,781            | 158                 | 94               |
|                      | Kuwait dinar 5,998  | 28,057            | 342,262             | 1,408,525        |
|                      |                     | <b>13,009,241</b> |                     | <b>1,436,187</b> |

Income earned on profit and loss sharing accounts with Kuwait Finance House is TL13,005 million (2000: None).

**ii) Available for sale securities:**

|  | <u>2001</u>          |                | <u>2000</u>          |                  |
|--|----------------------|----------------|----------------------|------------------|
|  | Original<br>currency | TL million     | Original<br>currency | TL million       |
| Islamic Development Bank participation fund                | US\$517,800          | 743,975        | 500,000              | 628,372          |
| G.A.P. Boru San. ve Tic. A. .                              | TL                   | 86,928         |                      | 86,928           |
| Körfez Tatil Beldesi Turistik<br>Tes. ve Devremülk l. A. . | TL                   | 45,730         |                      | -                |
| Körfez Gayrimenkul n aat<br>Taah. Turizm San. ve Tic. A. . | TL                   | -              |                      | 370,410          |
|  |                      | <b>876,633</b> |                      | <b>1,085,710</b> |

**KUVEYT TÜRK EVKAF F NANS KURUMU A. .**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER**

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

**NOTE 22 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)**

**iii) Due from financing activities:**

|                                |      | <u>2001</u>          |                  | <u>2000</u>          |                   |
|--------------------------------|------|----------------------|------------------|----------------------|-------------------|
|                                |      | Original<br>currency | TL million       | Original<br>currency | TL million        |
| Körfez Gayrimenkul n aat       |      |                      |                  |                      |                   |
| Taah. Turizm San. ve Tic. A. . | US\$ | -                    | -                | 7,180,975            | 9,024,645         |
|                                | TL   |                      | -                |                      | 12,566            |
|                                |      |                      |                  |                      | <u>9,037,211</u>  |
| G.A.P Boru San. ve Tic. A. .   | US\$ | 1,848,843            | 2,656,418        | 3,031,667            | 3,810,028         |
|                                | TL   |                      | 18,999           |                      | 77,034            |
|                                |      |                      | 2,675,417        |                      | <u>3,887,062</u>  |
|                                |      |                      | <u>2,675,417</u> |                      | <u>12,924,273</u> |

The income from funds invested to related parties amounts to TL197,194 million (2000: TL194,446 million) of which TL157,756 million (2000: TL155,556 million) was reflected to profit shares distributed.

**iv) Investment in net finance lease receivables:**

|                              |      | <u>2001</u>          |                  | <u>2000</u>          |                  |
|------------------------------|------|----------------------|------------------|----------------------|------------------|
|                              |      | Original<br>currency | TL million       | Original<br>currency | TL million       |
| G.A.P Boru San. ve Tic. A. . | US\$ | 2,248,238            | 3,230,268        | 2,258,637            | 2,838,527        |
|                              | DM   | 1,046,611            | 677,374          | 1,033,764            | 614,505          |
|                              | TL   |                      | -                |                      | -                |
|                              |      |                      | <u>3,907,642</u> |                      | <u>3,453,032</u> |

**v) Due to other financial institutions:**

|                      |      | <u>2001</u>         |            | <u>2000</u>         |            |
|----------------------|------|---------------------|------------|---------------------|------------|
|                      |      | Foreign<br>Currency | TL million | Foreign<br>Currency | TL million |
| Kuwait Finance House | US\$ | 6,698,916           | 9,625,003  | -                   | -          |

**NOTE 22 - BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)**

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

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**vi) Profit/loss sharing investors accounts:**

|  |      | <b>2001</b>                 |                   | <b>2000</b>                 |                   |
|--|------|-----------------------------|-------------------|-----------------------------|-------------------|
|  |      | <b>Foreign<br/>Currency</b> | <b>TL million</b> | <b>Foreign<br/>Currency</b> | <b>TL million</b> |
| Islamic Development Bank   | US\$ | 8,130,464                   | 11,681,851        | US\$ 21,236,152             | 26,688,402        |
| Kuwait Finance House   | US\$ | 3,831,389                   | 5,504,940         | US\$ 6,740,000              | 8,470,452         |
|  | EUR  | -                           | -                 | EUR 10,368,000              | 12,053,984        |
| Vak flar Genel Müdürlü ü<br>The Public Institution for<br>Social Security Kuwait | TL   |                             | 252,688           | TL                          | - 813,734         |
|  | US\$ | -                           | -                 | US\$ 102,193                | 128,431           |
|  |      | <b>17,439,479</b>           |                   | <b>48,155,003</b>           |                   |

**vii) The profit shares distributed:**

|  |      | <b>2001</b>                 |                   | <b>2000</b>                 |                   |
|--|------|-----------------------------|-------------------|-----------------------------|-------------------|
|  |      | <b>Foreign<br/>Currency</b> | <b>TL million</b> | <b>Foreign<br/>Currency</b> | <b>TL million</b> |
| Islamic Development Bank   | US\$ | 1,092,330                   | 1,569,460         | 703,648                     | 826,474           |
| Kuwait Finance House   | US\$ | 632,119                     | 908,229           | 597,874                     | 581,136           |
|  | EUR  | 148,240                     | 187,645           | 27,631                      | 29,722            |
| Vak flar Genel Müdürlü ü<br>The Public Institution for<br>Social Security Kuwait |      |                             | 78,407            |                             | 396,474           |
|  | US\$ | -                           | -                 | 6,568                       | 7,103             |
|  |      | <b>2,743,741</b>            |                   | <b>1,840,909</b>            |                   |

**viii) The guarantee letters issued:**

|  | <b>2001</b> | <b>2000</b>   |
|--|-------------|---------------|
| G.A.P. Boru San. ve Tic. A. .<br>Körfez Gayrimenkul In aat<br>Taahhüt Turizm San. ve Tic. A. | 4,800       | 65,055        |
|  | -           | 7,090         |
|  |             | <b>72,145</b> |



**KUVEYT TÜRK EVKAF F NANS KURUMU A. .**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER**

(Amounts expressed in millions of Turkish lira (TL) in terms of the purchasing power of TL at 31 December 2001)

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**NOTE 23 - POST BALANCE SHEET EVENTS**

The Institution has increased its share capital from TL36,630,000 million to TL95,310,000 million in 2002. Total cash injection amounted to TL35,640,000 million and TL23,040,000 million of the capital increase has been funded by the statutory revaluation reserves of property and equipment.

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