

KUVEYT TÜR K 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

CONSOLIDATED BALANCE SHEETS	1
CONSOLIDATED STATEMENTS OF INCOME.....	2
CONSOLIDATED STATEMENTS OF CASH FLOWS	3
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	4
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	5-38
NOTE 1 ORGANIZATION AND NATURE OF OPERATIONS	5
NOTE 2 SIGNIFICANT ACCOUNTING POLICIES	5-16
NOTE 3 CASH AND DUE FROM BANKS.....	17-18
NOTE 4 BLOCKED ACCOUNTS AT THE CENTRAL BANK OF TURKEY AND LIQUIDITY REQUIREMENTS	19
NOTE 5 AVAILABLE FOR SALE SECURITIES	20
NOTE 6 DUE FROM FINANCING ACTIVITIES, NET	21-22
NOTE 7 INVESTMENT IN LEASES, NET	23
NOTE 8 OTHER ASSETS	23
NOTE 9 CONSTRUCTION PROJECTS, NET	23
NOTE 10 PROPERTY AND EQUIPMENT, NET	24
NOTE 11 DUE TO OTHER FINANCIAL INSTITUTIONS	25
NOTE 12 CURRENT ACCOUNTS AND PROFIT/LOSS SHARING INVESTORS' ACCOUNTS	25-26
NOTE 13 TAXES ON INCOME	27-30
NOTE 14 OTHER LIABILITIES	31
NOTE 15 RESERVE FOR EMPLOYMENT TERMINATION BENEFITS.....	31-32
NOTE 16 SHARE CAPITAL	32
NOTE 17 LEGAL RESERVES AND RETAINED EARNINGS	33
NOTE 18 FEE AND COMMISSION INCOME	33
NOTE 19 INCOME FROM CONSTRUCTION PROJECTS, NET	34
NOTE 20 OTHER EXPENSES	34
NOTE 21 COMMITMENTS AND CONTINGENT LIABILITIES	34
NOTE 22 BALANCES AND TRANSACTIONS WITH RELATED PARTIES	35-37
NOTE 23 POST BALANCE SHEET EVENTS.....	38

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
ASSETS			
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
Total assets		669,651,061	583,777,316
LIABILITIES AND SHAREHOLDERS' EQUITY			
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
Total liabilities		625,379,061	537,653,286
Shareholders' equity:			
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
Total shareholders' equity		44,272,000	46,124,030
Total liabilities and shareholders' equity		669,651,061	583,777,316
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
Income from financing activities:			
Profit/loss sharing accounts		60,573,121	58,740,154
Current accounts and equity		17,676,613	23,012,292
		78,249,734	81,752,446
Profit shares distributed		(55,107,331)	(50,010,974)
Net financing income		23,142,403	31,741,472
Foreign exchange gain, net		9,793,414	1,769,658
Net financing income after net foreign exchange gain		32,935,817	33,511,130
Fee and commission income	18	11,205,286	14,211,939
Fee and commission expense		(4,864,881)	(1,737,176)
Net fee and commission income		6,340,405	12,474,763
Other operating revenue:			
Income from construction projects, net	19	4,328,017	-
Other income		3,328,487	1,482,936
Total operating income		46,932,726	47,468,829
Other operating expenses:			
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)
Total other operating expenses		(37,230,959)	(34,576,263)
Income before tax and net monetary loss		9,701,767	12,892,566
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)
Net income for the year		2,485,702	3,587,218

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
Cash flows from operating activities:			
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
Operating loss before changes in, operating assets and liabilities:			
		(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
Net cash provided from operating activities		210,374,514	74,982,356
Cash flows from investing activities:			
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
Net cash used in investing activities		(4,303,660)	1,000,714
Cash flows from financing activities:			
Dividends and donation paid		(629,459)	(1,233,591)
Cash flows from other financial institutions	11	9,625,003	-
Net cash provided from / (used in) financing activities		8,995,544	(1,233,591)
Net increase / (decrease) in cash and cash equivalents		215,066,398	74,749,479
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)

	Share capital	Adjustments to share capital	Retained earnings	Shareholders' equity total
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 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
Balance at 31 December 2000	21,630,000	6,948,768	17,545,262	46,124,030
Balance at 1 January 2001				
-as previously reported	21,630,000	6,948,768	17,545,262	46,124,030
-Effect of adopting IAS 39, net of tax	-	-	(75,992)	(75,992)
-as restated	21,630,000	6,948,768	17,469,270	46,048,038
Non-cash increase in share capital	15,000,000	(15,000,000)	-	-
Effect of consolidation of 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
Balance at 31 December 2001	36,630,000	(8,051,232)	15,693,232	44,272,000

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)

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)

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:

<u>Date</u>	<u>Index</u>	<u>Conversion factor</u>
31 December 2001	4,951.7	1.000
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 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)

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)

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)

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

	TL	US\$	EUR	Other	Total
Cash and due from banks	18,004,696	99,002,002	75,621,560	5,912,073	198,540,331
Blocked accounts at the 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
Total assets	88,905,366	375,905,553	198,918,610	5,921,532	669,651,061
Due to other financial institutions	-	9,625,003	-	-	9,625,003
Current accounts and profit/loss 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 payable	2,491,438	-	-	-	2,491,438
Other liabilities	2,578,540	1,842,817	7,128,741	-	11,550,098
Reserve for employment termination benefits	643,877	-	-	-	643,877
Total liabilities	49,907,206	432,087,277	139,281,811	4,102,767	625,379,061
Net balance sheet position	38,998,160	(56,181,724)	59,636,799	1,818,765	44,272,000

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**

	TL	US\$	DM	Other	Total
Cash and due from banks	5,546,790	44,084,553	5,399,195	5,646,521	60,677,059
Blocked accounts at the					
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
Total assets	99,503,409	365,983,598	98,292,280	19,998,029	583,777,316
Current accounts and profit/loss 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 payable	1,535,463	-	-	-	1,535,463
Other liabilities	3,379,367	469,410	2,480	5,148	3,856,405
Reserve for employment termination benefits	372,083	-	-	-	372,083
Total liabilities	50,305,099	373,835,619	92,145,054	21,367,514	537,653,286
Net balance sheet position	49,198,310	(7,852,021)	6,147,226	(1,369,485)	46,124,030

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.

31 December 2001 (TL billion)	Demand and less than 1 month	1 to 3 months	3 to 12 months	Over 1 year	No maturity	Total
ASSETS						
Cash and due from banks	197,103	-	1,437	-	-	198,540
Blocked accounts at Central 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
Total assets	237,783	64,367	137,640	114,251	115,609	669,650
LIABILITIES						
Due to other financial institutions	-	8,149	1,476	-	-	9,625
Current accounts and profit/loss 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 benefits	-	-	-	644	-	644
Total liabilities	443,188	115,427	27,597	39,166	-	625,378
Net liquidity gap	(205,405)	(51,060)	110,043	75,085	115,609	44,272

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 (TL billion)	Demand and less than 1 month	1 to 3 months	3 to 12 months	Over 1 year	No maturity	Total
ASSETS						
Cash and due from banks	56,908	-	3,769	-	-	60,677
Blocked accounts at Central 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
Total assets	115,589	97,551	232,249	54,054	84,334	583,777
LIABILITIES						
Current accounts and profit/loss 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 benefits	-	-	-	372	-	372
Total liabilities	350,960	109,046	30,737	46,910	-	537,653
Net liquidity gap	(235,371)	(11,495)	201,511	7,144	84,334	46,124

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)

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

	2001	2000
Cash :		
Turkish lira	3,851,498	1,828,980
Foreign currency	19,873,221	6,339,226
	23,724,719	8,168,206
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	198,540,331	60,677,059

Foreign currency cash includes the following:

	<u>2001</u>		<u>2000</u>	
	Foreign currency	TL million	Foreign currency	TL million
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
		19,873,221		6,339,226

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 (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	-	-	-
		113,035,788			16,928,891	

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 currency</u>	<u>TL million</u>	<u>Foreign 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
		69,479,148		55,967,817

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 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 Devremülk İletmecili İ A. . (*)	45,730	-
Körfez Gayrimenkul İnat Taahhüt Turizm San. ve Tic. A. . (**)	-	370,410
	1,451,146	2,133,324

(*) 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 İnat 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)

NOTE 6 - DUE FROM FINANCING ACTIVITIES, NET

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

	2001	2000
Performing:		
Funds invested from profit/loss sharing accounts	200,943,690	286,835,878
Funds invested from current accounts and equity	18,577,811	40,195,981
	219,521,501	327,031,859
Non-performing:		
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
Total due from financing activities	293,912,388	386,483,853
Provision for doubtful receivables :		
Funds invested from current accounts and equity	(18,698,635)	(7,338,434)
Funds invested from profit / loss sharing accounts - Turkish lira	(3,794,440)	(2,174,481)
Funds invested from profit / loss sharing accounts - foreign currency	(15,134,963)	(15,067,415)
Total due from financing activities, net	256,284,350	361,903,523

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:

	2001	2000
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
	219,521,501	327,031,859

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

	2001	2000
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)
Balance at 31 December 2001	37,628,038	24,580,330

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

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

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)	
Balance at 31 December 2001	9,549,039	

NOTE 8 - OTHER ASSETS

	2001	2000
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
	18,427,445	7,860,771

NOTE 9 - CONSTRUCTION PROJECTS, NET

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

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

At 31 December 2001	Buildings	Furniture and office equipment	Motor vehicles	Leasehold improvements	Total
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)
Closing net book value	8,813,110	4,201,354	134,372	908,896	14,057,732
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)
Closing net book value	8,813,110	4,201,354	134,372	908,896	14,057,732

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

	2001	2000
Kuwait Finance House (Shareholder - Note 22.v.)	9,625,003	-
	9,625,003	-

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

Currency	Amount in foreign currency	Amount in TL million	Amortised cost in TL million	Maturity	Effective rate (%)
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
		9,339,200	9,625,003		

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

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

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:

	2001		2000	
	Turkish lira TL million	Foreign currency TL million	Turkish lira TL million	Foreign currency TL million
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
	42,944,088	556,875,294	42,898,395	486,871,149

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

	2001		2000	
	Foreign currency	TL million	Foreign currency	TL million
<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
		64,543,759		38,949,503

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
		492,331,535		447,921,647

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 13 - TAXES ON INCOME

The reconciliation of taxation is as follows:

	2001	2000
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

(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)

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

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

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

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

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

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

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

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

Deferred taxes for 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%).

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 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:-

	2001	
	Temporary difference	Amount
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

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 13 - TAXES ON INCOME (Continued)

	2000	
	Temporary difference	Amount
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
	745,832	147,674
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
	37,959,783	7,516,036
Net deferred income tax asset	37,213,951	7,368,362

The movement in deferred taxes is as follows:

	2001	2000
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	5,482,239	7,368,362

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
	11,550,098	3,856,405

(*) 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	643,877	372,083

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:-

	2001		2000	
	Shares %	TL million	Shares %	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 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		28,578,768		28,578,768

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 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 :

	2001	2000
Legal reserves	632,347	897,434
Retained earnings	3,112,855	3,828,303
	3,745,202	4,725,737

NOTE 18 - FEE AND COMMISSION INCOME

	2001	2000
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
	11,205,286	14,211,939

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 19 - INCOME FROM CONSTRUCTION PROJECTS, NET

	2001	2000
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)	-
	4,328,017	-

NOTE 20 - OTHER EXPENSES

	2001	2000
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
	7,715,293	5,044,770

NOTE 21 - COMMITMENTS AND CONTINGENT LIABILITIES

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

	2001	2000
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
	97,775,883	107,216,514

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 currency	TL million	Foreign 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
		13,009,241		1,436,187

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 currency	TL million	Original 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 Tes. ve Devremülk l. A. .	TL	45,730		-
Körfez Gayrimenkul n aat Taah. Turizm San. ve Tic. A. .	TL	-		370,410
		876,633		1,085,710

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 currency	TL million	Original 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
			<u>2,675,417</u>		<u>3,887,062</u>
			2,675,417		12,924,273

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 currency	TL million	Original 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 Currency	TL million	Foreign 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**

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

vi) Profit/loss sharing investors accounts:

		2001		2000	
		Foreign Currency	TL million	Foreign Currency	TL million
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 The Public Institution for Social Security Kuwait	TL		252,688	TL	- 813,734
	US\$	-	-	US\$ 102,193	128,431
		17,439,479		48,155,003	

vii) The profit shares distributed:

		2001		2000	
		Foreign Currency	TL million	Foreign Currency	TL million
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 The Public Institution for Social Security Kuwait			78,407		396,474
	US\$	-	-	6,568	7,103
		2,743,741		1,840,909	

viii) The guarantee letters issued:

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

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 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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