

**TÜRK EKONOMİ BANKASI
ANONİM ŞİRKETİ**

**CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2010**

To the Board of Directors of
Türk Ekonomi Bankası A.Ş.
İstanbul

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of Türk Ekonomi Bankası A.Ş. (the "Bank" or "TEB") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

As explained in detail in Note 29, on February 10, 2011, the Banking Regulation and Supervision Agency ("BRSA") approved the decisions taken related to the merger of TEB and Fortis Bank A.Ş. in the Extraordinary General Assemblies of the merging banks held on January 25, 2011 and this approval was announced in the Official Gazette dated February 12, 2011 and numbered 27844. On February 14, 2011, the relevant registration was made with İstanbul Trade Registry resulting in dissolution of Fortis Bank A.Ş. and transfer of all its rights, receivables, liabilities and obligations to TEB.

İstanbul, March 14, 2011

DRT Bağımsız Denetim ve ŞMMM A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.

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TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	Notes	December 31, 2010	December 31, 2009
ASSETS			
Cash and balances with central banks	5	2,132,807	1,661,036
Deposits with and loans due from banks and other financial institutions	5	1,380,874	1,029,378
Other money market placements	5	238	704,319
Financial assets at fair value through profit and loss	6,17	216,188	200,023
Derivatives used for hedging purposes	17	11,157	31,330
Available-for-sale financial assets	6	3,515,011	1,678,893
Loans and receivables	7	12,310,519	9,205,630
Remeasurement adjustment on interest rate risk hedged portfolios		33,648	46,589
Held-to-maturity investments	6	235,019	901,640
Factoring receivables, net	8	602,646	374,121
Minimum lease payments receivable	9	-	402,490
Premises and equipment	10	117,568	143,835
Intangible assets	11	13,941	15,483
Deferred tax asset	16	36,895	83,339
Other assets	12	463,059	399,263
Total assets		21,069,570	16,877,369
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks	13	1,551,262	296,581
Customers' deposits	13	11,612,609	10,066,703
Other money market deposits	13	74,357	1,071,971
Financial liabilities at fair value through profit and loss	17	96,768	57,989
Derivatives used for hedging purposes	17	56,547	73,493
Funds borrowed:			
- Subordinated debt	14	470,060	480,574
- Other funds borrowed	14	4,428,335	2,457,679
Other liabilities	15	699,943	558,501
Provisions	15	46,073	30,535
Income taxes payable	16	52,684	3,375
Total liabilities		19,088,638	15,097,401
EQUITY			
Equity attributable to equity holders of the parent		1,980,932	1,779,968
Share capital issued	18	1,100,000	1,100,000
Premium-in excess of par		2,158	2,158
Adjustment to share capital	18	926	926
Unrealized gains/(losses) on available-for-sale investments, net of tax	19	83,023	21,823
Other reserves and retained earnings	19	794,825	655,061
Total equity		1,980,932	1,779,968
Total liabilities and equity		21,069,570	16,877,369

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	Notes	January 1- December 31, 2010	January 1- December 31, 2009
Interest income			
Interest on loans and receivables		1,262,803	1,339,563
Interest on securities		251,330	288,681
Interest on deposits with and loans due from banks and other financial institutions		41,142	69,714
Interest on other money market placements		2,135	27,102
Interest income on hedging derivatives		7,951	14,268
Other interest income		4	1,020
Total interest income		1,565,365	1,740,348
Interest expense			
Interest on customer deposits		(501,920)	(619,490)
Interest on other money market deposits		(49,498)	(44,249)
Interest on funds borrowed and deposits from other banks		(207,703)	(207,161)
Interest on hedging derivatives		(48,223)	(65,281)
Total interest expense		(807,344)	(936,181)
Net interest income		758,021	804,167
Fees and commissions and other operating income			
Fees and commissions income	25	641,443	424,266
Fees and commissions expenses	25	(164,280)	(146,123)
Net gain/loss on financial instruments at fair value through profit or loss	24	(12,255)	43,059
Gains less losses on investment securities		37,801	55,570
Net income / loss from other activities		(11,083)	(9,210)
Net banking income		1,249,647	1,171,729
Operating expenses			
Salaries and employee benefits	22	(419,994)	(396,290)
Other operating expenses	23	(262,988)	(238,418)
Depreciation and amortization	10,11	(53,606)	(53,437)
Taxes other than on income		(48,079)	(20,039)
Gross operating income		464,980	463,545
Provisions for impairment of loan, lease and factoring receivables, net of recoveries		(50,604)	(259,773)
Net operating income		414,376	203,772
Gain/(loss) on sale of fixed assets, net		70	(251)
Profit from operating activities before income tax		414,446	203,521
Income tax – provisions		-	(735)
Income tax – current	16	(94,522)	(58,061)
Income tax – deferred	16	8,865	18,005
Net profit for the year from continuing operations		328,789	162,730
Discontinued operations			
Profit for the year from discontinued operations		24,886	39,471
Attributable to :			
Equity holders of the parent		353,675	202,201
Net profit		353,675	202,201
Earnings per share (full TRY)	20	0.3215	0.1838

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

	January 1- December 31, 2010	January 1- December 31, 2009
Profit for the year	353,675	202,201
Other comprehensive income		
Fair value gains on available-for-sale financial assets, net of tax	61,200	16,605
Net change in fair values	89,712	60,798
Net amount transferred to income	(28,512)	(44,193)
Currency translation differences	(6,894)	683
Other comprehensive income for the year, net of tax	54,306	17,288
Total comprehensive income for the year	407,981	219,489
Total comprehensive income attributable to equity holders of the Parent	407,981	219,489

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

		Attributable to equity holders of the Parent						
Notes	Share capital	Premium in excess of par	Adjustment to share capital	Unrealized gains/(losses) on available-for-sale investments, net of tax	Currency translation reserve	Legal reserves and retained earnings	Total equity	
At January 1, 2009	1,100,000	2,158	926	5,218	8,576	443,601	1,560,479	
Total comprehensive income for the year	-	-	-	16,605	683	202,201	219,489	
At December 31, 2009	1,100,000	2,158	926	21,823	9,259	645,802	1,779,968	
At January 1, 2010	1,100,000	2,158	926	21,823	9,259	645,802	1,779,968	
Total comprehensive income for the year	-	-	-	61,200	(6,894)	353,675	407,981	
Dividends paid	-	-	-	-	-	(207,017)	(207,017)	
At December 31, 2010	1,100,000	2,158	926	83,023	2,365	792,460	1,980,932	

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

Notes	January 1- December 31, 2010	January 1- December 31, 2009
Cash flows from operating activities		
Interest received	1,470,117	1,954,295
Interest paid	(751,482)	(1,184,401)
Fees and commissions received	641,443	424,532
Trading income	20,929	171,573
Recoveries of impairment of loan, lease and factoring receivables	144,095	142,915
Fees and commissions paid	(164,280)	(145,855)
Cash payments to employees and other parties	(383,793)	(392,629)
Other operating activities	(394,511)	(198,888)
Income taxes paid	(47,489)	(53,651)
Cash flows from operating activities before changes in operating assets and liabilities	535,029	717,891
Changes in operating assets and liabilities		
Net (increase) / decrease in trading securities	25,364	(120,077)
Net (increase) / decrease in reserve deposits at central banks	(530,375)	28,090
Net (increase) / decrease in deposits with and loans due from banks and other financial institutions	1,109	(60,315)
Net (increase) / decrease in loans and receivables	(3,209,387)	(929,073)
Net (increase) / decrease in factoring receivables	(232,674)	(62,961)
Net (increase) / decrease in minimum lease payments receivable	33,641	150,953
Net (increase) / decrease in other assets	(80,183)	(40,183)
Net increase / (decrease) in deposits from other banks	1,254,383	26,744
Net increase / (decrease) in customers' deposits	1,535,621	(123,805)
Net increase / (decrease) in other money market deposits	(993,940)	866,628
Net increase / (decrease) in other liabilities	157,338	61,679
Net cash used in operating activities	(2,039,103)	(202,320)
Cash flows from investing activities		
Purchases of available- for- sale securities	(4,504,168)	(3,053,655)
Proceeds from sale and redemption of available-for-sale securities	2,732,698	2,662,878
Purchases of held to maturity securities	(9,400)	(103,360)
Proceeds from redemption of held to maturity securities	676,868	-
Purchases of property and equipment	(20,537)	(19,653)
Proceeds from the sale of premises and equipment	237	9,918
Purchases of intangible assets	(7,649)	(9,203)
Proceeds from a disposal of a subsidiary	39,272	-
Net cash used in investing activities	(1,092,679)	(513,075)
Cash flows from financing activities		
Proceeds from funds borrowed and debt securities	41,991,299	24,125,882
Repayment of funds borrowed and debt securities	(39,631,657)	(25,148,582)
Dividends paid to equity holders of the parent	(207,017)	-
Net cash provided by / (used in) financing activities	2,152,625	(1,022,700)
Effect of net foreign exchange difference	36,055	(41,407)
Net increase/ (decrease) in cash and cash equivalents	(408,073)	(1,061,611)
Cash and cash equivalents at the beginning of the year	5 1,718,235	2,779,846
Cash and cash equivalents at the end of the year	5 1,310,162	1,718,235

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası A.Ş. (the “Bank” or “TEB”) was incorporated in Turkey in 1927 under the name of Kocaeli Halk Bankası T.A.Ş. and was acquired by the Çolakoğlu Group in 1982. The name of the Bank was changed as Türk Ekonomi Bankası A.Ş. and its headquarters moved to İstanbul. Certain shares of the Bank, representing 20% of the total, were listed on the İstanbul Stock Exchange in February 2000. Currently, 15.63% of the total shares are publicly traded. TEB’s shares are also listed and traded on the London Stock Exchange as GDR’s since 2000. The registered office address of TEB is Meclis-i Mebusan Caddesi, No: 57, Fındıklı-İstanbul/Turkey.

For the purposes of the accompanying consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as “the Group”.

On February 10, 2005 BNP Paribas acquired 50% shares of TEB Mali Yatırımlar A.Ş., the ultimate shareholder of the Group by 84.25%.

The consolidated financial statements of the Bank were authorized for issuance by the management on March 14, 2011. The General Assembly and certain regulatory authorities have the power to amend the statutory financial statements after issue.

Nature of Activities of the Group

The operations of the Group consist of banking, factoring, securities brokerage and portfolio management, which are conducted mainly for local customers.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of December 31, 2010 and December 31, 2009 are as follows:

	Place of Incorporation	Effective Shareholding And Voting Rights %	
		December 31, 2010	December 31, 2009
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.0	100.0
TEB Faktoring A.Ş. (TEB Faktoring)	Turkey	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	100.0	100.0
Stichting Effecten Dienstverlening	Netherlands	100.0	100.0
Kronenburg Vastgoed B.V.	Netherlands	100.0	100.0

The Bank sold 90.01% shares of its subsidiary TEB Finansal Kiralama A.Ş. to Fortis Finansal Kiralama A.Ş. for a consideration of TRY 113,345 as of September 30, 2010. The remaining 9.99% shares are presented in the available for sale financial assets and accounted for at fair value in accordance with IAS 39.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

1. CORPORATE INFORMATION (continued)

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank – Commercial bank, which mainly deals in foreign trade finance, corporate banking, private banking and correspondent banking services.

TEB Yatırım – Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Faktoring – Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Portföy – Managing individual customer portfolios and mutual funds which consist of capital market instruments.

Stichting Effecten Dienstverlening – Operating under Economy Bank for holding securities of customers, located in the Netherlands.

Kronenburg Vastgoed B.V. – Real estate company founded for the purpose of the ownership of property possessed by Economy Bank in the Netherlands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost convention, except for those assets and liabilities measured at fair value.

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira (TRY). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements, which mainly comprise the effects of deferred taxation and reserve for impairment of loans and receivables.

Due to the disposal of 90.01% shares of TEB Leasing as of September 30, 2010, certain reclassifications have been made to the “Discontinued operations” line in the prior year statement of income in accordance with IFRS 5 requirements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates

Judgments and Estimates

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards (IAS) requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the statement of income and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results of operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections below.

Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiaries Which Operate in Turkey:

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TRY). Until December 31, 2004, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TRY based on IAS 29, which 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 the corresponding figures for previous periods be restated in the same terms.

Functional Currencies of Foreign Subsidiaries:

As of December 31, 2010, Economy Bank operating in Netherlands adopted the Euro (EUR) as its functional currency.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Foreign Currency Translation

The consolidated financial statements are presented in TRY, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TRY	USD / TRY
December 31, 2008	2.13	1.52
December 31, 2009	2.14	1.49
December 31, 2010	2.06	1.54

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (TRY) at the exchange rate ruling at the balance sheet date. The income statements of foreign subsidiaries are translated at average exchange rates for the year end. For consolidation purposes, exchange differences arising from the translation of the net investment in foreign entities are included in equity as currency translation differences until the disposal of the net investment.

On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement as a component of the gain or loss on disposal.

Basis of Consolidation and Goodwill

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at December 31 of each year.

Subsidiaries are entities over which the Group has power to govern the financial and operating policies so as to benefit from their activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are subject to consolidation. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the Group controls another entity or not.

Subsidiaries are fully consolidated from the date of acquisition, referring to the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units. The carrying amount of goodwill at December 31, 2010 and 2009 was TRY 1,205 (see Note 11) and there is no impairment recorded related to goodwill. There is no negative bargain purchase gain recognized by the Group.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Basis of Consolidation and Goodwill (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and land improvements	50 years
Vehicles	5 years
Furniture, fixtures and office equipment and others	5 years
Land	Not depreciated
Leasehold improvements	Lease period (max 5 years)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end.

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

An item of premises and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

Intangible Assets

Intangible assets acquired are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances such as selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying value would increase by TRY 36,777 (December 31, 2009: TRY 37,913) before tax effect, by adjusting to fair value due to change in the classification and hence, the valuation methodology, with a corresponding entry in the net unrealized gains on available-for-sale investments under equity. There has been no tainting in the held-to-maturity portfolio during the current period.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held-to-maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used.

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they belong to. Securities sold subject to repurchase agreements ('repos') are referred to as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ('reverse repos') are not recognized in the balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using the effective interest method.

Netting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

a) Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (i) adverse changes in the payment status of borrowers; or
 - (ii) national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the carrying amount and the estimated recoverable amount of the asset, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets (continued)

a) Assets carried at amortized cost (continued)

The Group first assesses whether objective evidence for impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off are included in income.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and receivables as of December 31, 2010 is TRY 12,913,165 (December 31, 2009 - 9,982,241 TRY) net of impairment allowance of TRY 364,187 (December 31, 2009 - TRY 437,922).

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value since its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the recoverable amount of the asset. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest - Bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Employee Benefits

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries in Turkey are required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Economy Bank and its subsidiaries do not carry such obligations.

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

In calculating the related liability to be recorded in the financial statements for this defined benefit plan, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 15 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2010 is TRY 25,122 (December 31, 2009 - TRY 18,512).

Other Contributions

The Group pays contributions to Social Security Funds on a mandatory basis. There are no other liabilities related to employee benefits to be provisioned.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Restructuring Costs

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity (Note 15).. The Group recorded TRY 25,239 of restructuring expense in the current year.

Leases

(a) The Group as Lessee

Finance leases

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Leases (continued)

(a) The Group as Lessee (continued)

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period expires, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(b) The Group as Lessor

Finance leases

The leased assets are classified as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the outstanding net investment. Initial direct costs are included in the initial measurement of the financial lease receivable and reduce the amount of income recognized over the lease term.

Factoring Receivables

Factoring receivables are recognized at original factored receivable amount less advances extended against factoring receivables, interest and factoring commissions charged, and are carried at amortized cost, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment.

Income and Expense Recognition

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Income Tax

Tax expense/ (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

The Group is subject to income taxes in various jurisdictions. Where there are matters causing the final tax outcome to be different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As of December 31, 2010, the Group carries TRY 52,684 of income taxes payable (December 31, 2009 - TRY 3,375), TRY 36,895 of deferred tax asset (December 31, 2009 - TRY 83,339) and has no deferred tax liability (December 31, 2009 - nil).

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Derivative Financial Instruments and Hedge Accounting

Derivatives Held for Trading

The Group enters into transactions with derivative instruments including forwards, swaps, options and futures in the foreign exchange and capital markets. Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

All derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. As of December 31, 2010, the carrying amount of derivative financial assets held for trading is TRY 103,524 (December 31, 2009 - TRY 62,106) and the carrying amount of derivative financial liabilities held for trading is TRY 96,768 (December 31, 2009 - TRY 57,989).

Derivatives and Hedge Accounting

As of July 1, 2008, the Bank has started to apply fair value hedge accounting for the interest rate risk of a certain portfolio of its consumer loans with certain cross currency and interest rate swaps designated as hedging instruments.

At the inception of the hedge, the Bank prepared formal documentation of the hedging relationship identifying the hedged item, the hedging instrument, the hedging strategy, the type of risk covered and the methods used to assess the effectiveness of the hedging relationship. On inception and on a quarterly basis the effectiveness of the hedging relationship is assessed consistently with the original documentation.

The fair value changes of the hedged portfolio are included under "remeasurement adjustment on interest-rate risk hedged portfolios" in the balance sheet and "net gain/loss on financial instruments at fair value through profit or loss" in the income statement. Additionally, the difference between the fair value and the carrying value of the hedged portfolio at the inception of hedge accounting is amortized based on the respective maturities and included in "net gain/loss on financial instruments at fair value through profit or loss" in the income statement together with the fair value changes of the hedged portfolio and hedging instruments. The actual interest income and expense on the derivatives used for hedging purposes are recorded as interest income and expense.

As of December 31, 2010, the carrying amount of derivative financial assets used for hedging purposes is TRY 11,157 (December 31, 2009 – TRY 31,330) and the carrying amount of derivative financial liabilities for hedging purposes is TRY 56,547 (December 31, 2009 – TRY 73,493).

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Group.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

2.3 Changes in Accounting Policies

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported and disclosures in these financial statements. Details of other standards and interpretations adopted in these financial statements but that have had no material impact on the financial statements are set out in Section 2.3.3.

2.3.1 New and Revised IFRSs affecting presentation and disclosure only

No standards and interpretations affecting presentation and disclosures related with the financial position of the Group.

2.3.2 New and Revised IFRSs affecting the reported financial performance and / or financial position

No standards and interpretations affecting the reported results or the financial position of the Group.

2.3.3 New and Revised IFRSs applied with no material effect on the consolidated financial statements

Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of Improvements to IFRSs issued in 2009)

The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.

Amendments to IAS 7 *Statement of Cash Flows* (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 *Intangible Assets* for capitalisation as part of an internally generated intangible asset.

Amendments to IAS 1 *Presentation of Financial Statements* (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policies (continued)

2.3.3 New and Revised IFRSs applied with no material effect on the consolidated financial statements (continued)

IFRS 3 (revised in 2008) Business Combinations

IFRS 3 (revised), “Business Combinations” and consequential amendments to IAS 27, “Consolidated and separate financial statements”, IAS 28, “Investments in associates”, and IAS 31, “Interests in joint ventures”, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. The main impact of the adoption is as follows:

- a) to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as ‘minority’ interests) either at fair value or at the non-controlling interests’ share of the fair value of the identifiable net assets of the acquiree.
- b) to change the recognition and subsequent accounting requirements for contingent consideration.
- c) to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred.
- d) in step acquisitions, previously held interests are to be remeasured to fair value at the date of the subsequent acquisition with the value included in goodwill calculation. Gain or loss arising from the re-measurement shall be recognized as part of profit or loss.
- e) IFRS 3 (2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

IAS 27 (revised in 2008) Consolidated and Separate Financial Statements

In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognized in profit or loss. Under IAS 27 (2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognized at its fair value at the date control is lost. The resulting difference is recognized as a gain or loss in profit or loss.

IAS 28 (revised in 2008) Investments in Associates

The principle adopted under IAS 27 (2008) that a loss of control is recognized as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognized in profit or loss.

As part of *Improvements to IFRSs* issued in 2010, IAS 28 (2008) has been amended to clarify that the amendments to IAS 28 regarding transactions where the investor loses significant influence over an associate should be applied prospectively.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policies (continued)

2.3.3 New and Revised IFRSs applied with no material effect on the consolidated financial statements (continued)

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

IFRIC 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after July 1, 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

IFRIC 18, "Transfers of assets from customers", effective for transfer of assets received on or after July 1, 2009. This is not relevant to the Group, as it has not received any assets from customers.

"Additional exemptions for first-time adopters" (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after January 1, 2010. This is not relevant to the Group, as it is an existing IFRS preparer.

IFRS 2, "Share-based Payments – Group Cash-settled Share Payment Arrangements" is effective for annual periods beginning on or after January 1, 2010. This is not currently applicable to the Group, as the Group does not have share-based payment plans.

Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of Improvements to IFRSs issued in 2008) clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The improvements cover 12 main standards/intepretations as follows: IFRS 2 *Share-based Payments*, IFRS 8 *Operating Segments*, IAS 1 *Presentation of Financial Statements*, IAS 17 *Leases*, IAS 18 *Revenue*, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRIC 9 *Reassessment of Embedded Derivatives*, IFRIC 16 *Hedges of Net Investment in a Foreign Operation*. The effective dates vary standard by standard but most are effective January 1, 2010.

2.3.4 New and Revised IFRSs in issue but not yet effective

IFRS 1 (amendments) *First-time Adoption of IFRS – Additional Exemptions and Two Other Amendments*

Amendments to IFRS 1 which are effective for annual periods on or after July 1, 2010 provide limited exemption for first time adopters to present comparative IFRS 7 fair value disclosures.

On 20 December, IFRS 1 is amended to;

- provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs.
- provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

The amendment above will be effective for annual periods beginning on or after July 1, 2011. These amendments are not relevant to the Group, as it is an existing IFRS preparer.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policies (continued)

2.3.4 New and Revised IFRSs in issue but not yet effective (continued)

IFRS 7 Financial Instruments: Disclosures

In October 2010, IFRS 7 *Financial Instruments: Disclosures* is amended by IASB as part of its comprehensive review of off balance sheet activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendment will be effective for annual periods beginning on or after July 1, 2011. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

IFRS 9 Financial Instruments: Classification and Measurement

In November 2009, the first part of IFRS 9 relating to the classification and measurement of financial assets was issued. IFRS 9 will ultimately replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measure the financial assets as either at amortized cost or at fair value. The new standard is mandatory for annual periods beginning on or after January 1, 2013. The Group has not had an opportunity to consider the potential impact of the adoption of this standard.

IAS 12 Income Taxes

In December 2010, IAS 12 is amended. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The amendment will be effective for annual periods beginning on or after January 1, 2012. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

IAS 24(Revised 2009) Related Party Disclosures

In November 2009, IAS 24 Related Party Disclosures was revised. The revision to the standard provides government-related entities with a partial exemption from the disclosure requirements of IAS 24. The revised standard is mandatory for annual periods beginning on or after January 1, 2011. The Group has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

IAS 32(Amendments) Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements

The amendments to IAS 32 and IAS 1 are effective for annual periods beginning on or after February 1, 2010. The amendments address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in Accounting Policies (continued)

2.3.4 New and Revised IFRSs in issue but not yet effective (continued)

IFRIC 14 (Amendments) Pre-payment of a Minimum Funding Requirement

Amendments to IFRIC 14 are effective for annual periods beginning on or after January 1, 2011. The amendments affect entities that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions. The amendment requires an asset to be recognized for any surplus arising from voluntary pre-payments made. The Group does not expect any impact of the adoption of this amendment on the financial statements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or part, a financial liability. The Group has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

Annual Improvements May 2010

Further to the above amendments and revised standards, the IASB has issued Annual Improvements to IFRSs in May 2010 that cover 7 main standards/intepretations as follow: IFRS 1 *First-time Adoption of International Financial Reporting Standards*; IFRS 3 *Business Combinations*; IFRS 7 *Financial Instruments: Disclosures*; IAS 27 *Consolidated and Separate Financial Statements*; IAS 34 *Interim Financial Reporting* and IFRIC 13 *Customer Loyalty Programmes*. With the exception of amendments to IFRS 3 and IAS 27 which are effective on or after July 1, 2010, all other amendments are effective on or after January 1, 2011. Early adoption of these amendments are allowed. The Group has not yet had an opportunity to consider the potential impact of the adoption of these amendments to the standards.

2.4 Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

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3. DISCONTINUED OPERATION

The Bank sold 90.01% shares of its subsidiary TEB Finansal Kiralama A.Ş. (TEB Leasing) to Fortis Finansal Kiralama A.Ş. for a consideration of TRY 113,345 as of September 30, 2010. The remaining 9.99% shares are presented in the available for sale financial assets and accounted for at fair value in accordance with IAS 39. The profit amounting to TRY 17,092 resulting from this sale is presented under “Net profit for the year from discontinued operations” in the current year income statement.

The results of TEB Leasing for the years ended December 31, 2010 and December 31, 2009 are presented below:

	January 1- December 31, 2010	January 1- December 31, 2009
Net interest income	19,661	29,313
Net fee and commission income	197	266
Dividend income	1,292	859
Net gain/ loss on financial instruments at fair value through profit or loss	(338)	(2,371)
Net banking income	20,812	28,067
Operating expenses	(8,270)	(9,760)
Gross operating income	12,542	18,307
(Provisions for) / recoveries from impairment of loan, lease and factoring receivables	(4,128)	(14,652)
Net operating income	8,414	3,655
Gain/(loss) on sale of fixed assets, net	13	(111)
Profit from operating activities before income tax	8,427	3,544
Income tax	3,078	34,757
Net profit for the year	11,505	38,301
Effect of intercompany transactions	148	1,170
Gain on sale of discontinued operations	17,092	-
Tax charge of gain on sale of discontinued operations	(3,859)	-
Net profit for the year from the discontinued operation	24,886	39,471

Net cash flows on disposal of TEB Leasing:

Consideration paid in cash	113,345
Less: Cash and cash equivalents balances	(74,073)
Net cash inflow on disposal	39,272

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4. SEGMENT INFORMATION

Business segments

The Group has two main business segments which are organized and managed separately according to the nature of the products and services provided.

Year ended December 31, 2010

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
External revenues	574,297	976,613	649,844	(5,029)	2,195,725
Revenues from other segments	-	-	-	-	-
Total revenues	574,297	976,613	649,844	(5,029)	2,195,725
Segment result (A)	94,464	318,468	61,682	(60,168)	414,446
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	94,464	318,468	61,682	(60,168)	414,446
Dividend income	-	-	18,798	(18,798)	-
Profit before income tax	94,464	318,468	80,480	(78,966)	414,446
Income tax	-	-	(85,657)	-	(85,657)
Profit from discontinued operations	-	8,427	16,311	148	24,886
Net profit	94,464	326,895	11,134	(78,818)	353,675
Assets and Liabilities					
Segment assets	2,737,520	10,450,286	7,463,697	(213,396)	20,438,107
Unallocated assets	-	-	631,227	236	631,463
Total assets	2,737,520	10,450,286	8,094,924	(213,160)	21,069,570
Segment liabilities	5,753,994	7,925,274	4,700,301	(89,631)	18,289,938
Unallocated liabilities	-	-	798,893	(193)	798,700
Total liabilities	5,753,994	7,925,274	5,499,194	(89,824)	19,088,638
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	20,537
Intangible fixed assets	-	-	-	-	7,649
Depreciation	-	-	-	-	46,163
Amortization	-	-	-	-	7,590

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4. SEGMENT INFORMATION (continued)

Year ended December 31, 2009

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
External revenues	406,326	1,366,404	389,993	(7,319)	2,155,404
Revenues from other segments	-	-	-	-	-
Total revenues	406,326	1,366,404	389,993	(7,319)	2,155,404
Segment result (A)	(24,656)	243,385	(13,711)	(1,497)	203,521
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	(24,656)	243,385	(13,711)	(1,497)	203,521
Dividend income	-	-	14,554	(14,554)	-
Profit before income tax	(24,656)	243,385	843	(16,051)	203,521
Income tax	-	-	(40,791)	-	(40,791)
Profit from discontinued operations	-	38,301	-	1,170	39,471
Net profit	(24,656)	281,686	(39,948)	(14,881)	202,201
Assets and Liabilities					
Segment assets	1,917,169	8,369,480	6,143,172	(194,372)	16,235,449
Unallocated assets	-	-	641,920	-	641,920
Total assets	1,917,169	8,369,480	6,785,092	(194,372)	16,877,369
Segment liabilities	5,690,273	5,467,287	3,377,785	(30,355)	14,504,990
Unallocated liabilities	-	-	592,411	-	592,411
Total liabilities	5,690,273	5,467,287	3,970,196	(30,355)	15,097,401
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	19,829
Intangible fixed assets	-	-	-	-	9,570
Depreciation	-	-	-	-	47,152
Amortization	-	-	-	-	6,574

Geographical segments

The Group's geographical segments are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total Group revenue.

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4. SEGMENT INFORMATION (continued)

Year ended December 31, 2010

	Turkey	European Union	Total
Other segment information			
Segment assets	18,962,748	1,475,359	20,438,107
Unallocated assets	617,208	14,255	631,463
Total assets	19,579,956	1,489,614	21,069,570
Capital expenditures			
Tangible fixed assets	20,439	98	20,537
Intangible fixed assets	7,601	48	7,649

Year ended December 31, 2009

	Turkey	European Union	Total
Other segment information			
Segment assets	15,083,475	1,151,974	16,235,449
Unallocated assets	630,642	11,278	641,920
Total assets	15,714,117	1,163,252	16,877,369
Capital expenditures			
Tangible fixed assets	19,589	240	19,829
Intangible fixed assets	8,706	864	9,570

5. CASH, BALANCES WITH CENTRAL BANKS AND DEPOSITS WITH AND LOANS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2010	December 31, 2009
Cash on hand	315,400	327,971
Balances with central banks	88,705	131,043
Reserve deposits	1,728,702	1,202,022
Cash and balances with central banks	2,132,807	1,661,036
Deposits with and loans due from banks and other financial institutions	1,380,874	1,029,378
Funds lent under reverse repurchase agreements	238	9,402
Interbank placements	-	694,917
Other money market placements	238	704,319
Less: Loans due from banks	(472,912)	(454,553)
Less: Time deposits with original maturities of more than three months	(1,783)	(19,466)
Less: Reserve deposits	(1,728,702)	(1,202,022)
Less: Interest accruals	(360)	(457)
Cash and cash equivalents in the statements of cash flows	1,310,162	1,718,235

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5. CASH, BALANCES WITH CENTRAL BANKS AND DEPOSITS WITH AND LOANS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

The effective interest rates on deposits and placements are as follows:

	December 31, 2010		December 31, 2009	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with central banks	3.75%-5.48%	1.00%	5.17%-10.81%	0.95%-3.25%
Reserve deposits	-	-	5.20%	0.15%-1.18%
Deposits with and loans due from banks and other financial institutions	6.25%-11.64%	0.05%-7.46%	6.25%-20.81%	0.02%-4.57%
Funds lent under reverse repurchase agreements	5.05%-7.40%	-	5.70%-15.05%	-
Interbank placements	6.36%-6.95%	1.05%	6.55%-14.24%	3.00%-4.00%

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group's day-to-day operations. Reserves deposited with the Central Bank of Turkish Republic amounted to TRY 1,711,837 (December 31, 2009 - TRY 1,183,646).

As of December 31, 2010, the reserve deposit requirements applicable in Turkey for Turkish Lira and foreign currency deposits were 6% and 11%, respectively (December 31, 2009 - %5 and %9).

The interest rates applied for reserve deposits are raised to 6% from 5% for TRY deposits and to 11% from 10% for FC deposits and interest payment to TRY deposits is terminated effective from October 1, 2010.

Reserve deposit rates for TRY liabilities vary from 5% to 12% depending on maturities of liabilities for the reserve deposit calculations commencing on February 4, 2011.

Banks in the Netherlands are required to maintain a certain amount of funds and/or reserves on an account at the Dutch Central Bank and receive interest on their reserve requirement deposits at rates in line with open-market facilities. 1% reserve deposit requirement is applicable in Netherlands for all deposits maturing less than 2 years.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES

Financial assets at fair value through profit and loss:

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Financial assets at fair value through profit and loss						
Debt instruments	112,664			137,917		
Turkish government bonds and treasury bills	107,764	7.55%-13.90%	1.94%-11.88%	133,892	4.20%-15.00%	2.85%-7.00%
Eurobonds issued by the Turkish government	4,900	-	2.45%-5.65%	4,025	-	2.12%-6.91%
Derivatives held for trading	103,524			62,106		
Total financial assets at fair value through profit and loss	216,188			200,023		

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6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (continued)

Investment Securities:

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Available- for-sale securities at fair value						
Debt instruments						
Turkish government bonds	3,116,350	4.50%-14.70%	2.37%-9.00%	1,605,310	10.15%-16.29%	9.00%
Turkish treasury bills	3,185	6.13%-12.69%	2.50%-4.70%	3,012	12.69%	-
Eurobonds issued by the Turkish government	376,066	-	1.57%-7.67%	65,272	-	5.60%-8.08%
Equity instruments –unlisted (*)	12,594	-	-	-	-	-
Equity instruments –listed	4,737	-	-	3,209	-	-
Total available- for-sale securities at fair value	3,512,932			1,676,803		
Available-for-sale securities at cost						
Equity instruments –unlisted (**)	2,079	-	-	2,090	-	-
Total available- for- sale securities	3,515,011			1,678,893		
Held-to-maturity securities at amortized cost						
Debt instruments						
Turkish government bonds	217,604	10.19%-12.58%	-	880,802	10.82%-18.46%	-
Turkish treasury bills	-	-	-	3,522	5.78%	11.38%
Eurobonds issued by the Turkish government	17,415	-	4.81%-5.25%	17,316	-	4.25%-5.25%
Total held-to-maturity securities	235,019			901,640		
Total investment securities	3,750,030			2,580,533		

(*) After the sale of the Bank's 90.01% shares in TEB Finansal Kiralama A.Ş.; the remaining 9.99% shares are presented as available-for-sale financial assets and accounted for at fair value in accordance with IAS 39. The related amount is TRY 12,594.

(**) In the Board of Directors meeting held on September 23, 2009, the -Bank decided to participate in the revised capital structure of Kredi Garanti Fonu A.Ş. including TOBB (Turkish Union of Chambers and Exchange Commodities), KOSGEB (Presidency of Development and Support of Small and Medium-sized Enterprises Administration) and the banks by TRY 4,000. Upon this decision related to the capital increase of Kredi Garanti Fonu A.Ş. on September 11, 2009, the Bank paid TRY 2,000 of its capital commitment of TRY 4,000 on October 14, 2009.

Unlisted equity securities classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. Consequently they are reflected at cost less reserve for impairment, if any, as a reliable estimate of their fair values could not be made.

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6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (continued)

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements, which are included in the related portfolio are:

	December 31, 2010	December 31, 2009
Financial assets at fair value through profit and loss	-	-
Available-for-sale securities	-	526,855
Held-to-maturity securities	70,042	560,365
Carrying value of securities given as collateral under repos	70,042	1,087,220
Related liability	74,357	1,071,971

As of December 31, 2010, government securities with carrying values of TRY 437,155 (December 31, 2009 - TRY 352,472) are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası Anonim Şirketi (İstanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem Opsiyon Borsası (Turkish Derivatives Exchange) for regulatory requirements and as a guarantee for stock exchange, money market operations and derivatives.

TRY 870,685 (December 31, 2009 - TRY 1,080,103) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Gains and losses from investment securities arise from derecognition of available-for-sale and held-to-maturity securities.

The movement in investment securities (including those classified as loaned securities) is summarized as follows:

	December 31, 2010			December 31, 2009		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
At January 1	1,678,893	901,640	2,580,533	1,236,706	818,811	2,055,517
Exchange differences	17,964	293	18,257	(3,738)	(183)	(3,921)
Additions	4,504,168	-	4,504,168	3,053,655	103,359	3,157,014
Disposals (sale and redemption)	(2,732,698)	(676,868)	(3,409,566)	(2,662,878)	-	(2,662,878)
Changes in amortized cost and fair value	46,684	9,954	56,638	55,148	(6,248)	48,900
Change in income on redeemed cost adjustments	-	-	-	-	(14,099)	(14,099)
Total	3,515,011	235,019	3,750,030	1,678,893	901,640	2,580,533

The Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the year.

In 2008, the Bank transferred certain government debt securities included in its available-for-sale portfolio with notional amount of TRY 741,340 to its held-to-maturity portfolio due to a change in the intention. The fair value of securities at the transfer date amounted to TRY 763,520. The unrealized losses of TRY 7,465 recorded under equity at the transfer date will be amortized and transferred to profit and loss until the maturity of these securities. As of December 31, 2010, the balance of the unrealized losses under equity related to these securities amounted to TRY 183 (December 31, 2009: TRY 3,541).

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7. LOANS AND RECEIVABLES

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Commercial	9,110,062	7.10%-20.72%	1.63%-16.00%	6,958,243	9.01%-29.09%	2.25%-18.60%
Consumer	2,563,750	12.59%-13.05%	1.62%-10.79%	1,722,583	12.95%-21.63%	4.08%-13.80%
Credit cards	569,909	13.11%-15.14%	-	480,857	16.65%-25.28%	-
Other	46,651	5.00%-23.00%	-	23,365	9.70%-22.70%	-
Total performing loans	12,290,372			9,185,048		
Loans in arrears	375,474			435,666		
Less: Allowance for individually impaired loans	(245,728)			(260,908)		
Less: Allowance for collectively impaired loans	(109,599)			(154,176)		
Total	12,310,519			9,205,630		

Loans and receivables amounting to TRY 3,658,859 have floating interest rates and the rest have fixed interest rates. (December 31, 2009 – TRY 2,510,115).

The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

December 31, 2010	Commercial	Consumer	Credit Cards	Other	Total
Neither past due nor impaired	8,713,021	2,480,892	504,616	46,651	11,745,180
Past due not impaired	397,041	82,858	65,293	-	545,192
Individually impaired	299,641	21,706	54,127	-	375,474
Total gross	9,409,703	2,585,456	624,036	46,651	12,665,846
Less: allowance for individually impaired loans	(195,554)	(11,511)	(38,663)	-	(245,728)
Less: allowance for collectively impaired loans	(85,421)	(14,169)	(10,009)	-	(109,599)
Total allowance for impairment	(280,975)	(25,680)	(48,672)	-	(355,327)
Total net	9,128,728	2,559,776	575,364	46,651	12,310,519

December 31, 2009	Commercial	Consumer	Credit Cards	Other	Total
Neither past due nor impaired	6,578,934	1,661,168	413,164	23,365	8,676,631
Past due not impaired	379,309	61,415	67,693	-	508,417
Individually impaired	321,411	34,416	79,839	-	435,666
Total gross	7,279,654	1,756,999	560,696	23,365	9,620,714
Less: allowance for individually impaired loans	(172,305)	(33,985)	(54,618)	-	(260,908)
Less: allowance for collectively impaired loans	(87,558)	(22,739)	(43,879)	-	(154,176)
Total allowance for impairment	(259,863)	(56,724)	(98,497)	-	(415,084)
Total net	7,019,791	1,700,275	462,199	23,365	9,205,630

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7. LOANS AND RECEIVABLES (continued)

A reconciliation of the allowance for individual impairment losses on loans and receivables by classes is as follows;

December 31, 2010	Commercial	Consumer	Credit Cards	Total
At January 1, 2010	172,305	33,985	54,618	260,908
Charge for the year	131,769	(5,493)	30,830	157,106
Recoveries	(42,701)	(7,251)	(17,885)	(67,837)
Sale of non-performing loans (*)	(65,710)	(9,730)	(28,900)	(104,340)
Exchange difference	(109)	-	-	(109)
At December 31, 2010	195,554	11,511	38,663	245,728

December 31, 2009	Commercial	Consumer	Credit Cards	Total
At January 1, 2009	61,051	12,108	23,192	96,351
Charge for the year	143,174	33,020	64,373	240,567
Recoveries	(31,931)	(6,490)	(10,020)	(48,441)
Sale of non-performing loans (**)	-	(4,653)	(22,927)	(27,580)
Exchange difference	11	-	-	11
At December 31, 2009	172,305	33,985	54,618	260,908

(*) TRY 39,957 of the non-performing loans portfolio of the Bank with TRY 39,321 provision has been sold to Standart Varlık A.Ş. for TRY 4,125. This balance has been collected as of March 31, 2010 with the completion of the necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TRY 3,489 has been netted off from sales of non-performing loans.

TRY 75,008 of the non-performing loans portfolio of the Bank with TRY 75,008 provision has been sold to LBT Varlık Yönetim A.Ş. for TRY 6,500. This balance has been collected as of June 28, 2010 with the completion of the necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TRY 6,500 has been netted off from sales of non-performing loans.

(**) TRY 29,530 of the non-performing loans portfolio of the Bank with TRY 29,214 provision has been sold to LBT Varlık Yönetim A.Ş. for TRY 1,950. This balance has been collected as of November 9, 2009 with the completion of the necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TRY 1,634 has been netted off from sales of non-performing loans.

Movements in the reserve for impairment on loans and receivables:

	December 31, 2010	December 31, 2009
Reserve at beginning of year	415,084	189,675
Provision for impairment	111,623	300,057
Recoveries	(67,837)	(48,441)
Provision net of recoveries	43,786	251,616
Loans written off during the year	(104,340)	(27,580)
Exchange differences	797	1,373
Reserve at the end of the year	355,327	415,084

The fair value of collaterals, capped with the respective outstanding loan balance, that the Group holds relating to loans individually determined to be impaired at December 31, 2010 is TRY 120,349 (December 31, 2009 - TRY 126,773).

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7. LOANS AND RECEIVABLES (continued)

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually determined to be impaired:

	Current Period	Prior Period
Mortgage	97,707	100,297
Vehicle	15,820	24,951
Cash	7	31
Other	6,815	1,494
Total	120,349	126,773

Collateral and credit enhancements obtained by taking possession:

December 31, 2010	Commercial	Consumer	Credit Cards	Total
Residential, commercial or industrial property	30,550	2,988	-	33,538
Financial assets	-	-	-	-
Other	444	-	-	444
Total	30,994	2,988	-	33,982

December 31, 2009	Commercial	Consumer	Credit Cards	Total
Residential, commercial or industrial property	18,963	1,339	-	20,302
Financial assets	-	-	-	-
Other	22	17	-	39
Total	18,985	1,356	-	20,341

The Group employs independent appraisers in determining the current fair values of its real estates. Provision for impairment loss amounting to TRY 3,380 is booked for real estates held for resale as per the appraisals performed as of December 31, 2010 (December 31, 2009 – TRY 2,608).

Aging analysis of past due but not impaired loans per class of financial instruments:

December 31, 2010	Less than 30			Total
	days	31-60 days	61-90 days	
Loans and receivables				
Commercial	292,236	64,185	40,620	397,041
Consumer	35,662	36,151	11,045	82,858
Credit cards	59,836	412	5,045	65,293
Total	387,734	100,748	56,710	545,192

December 31, 2009	Less than 30			Total
	days	31-60 days	61-90 days	
Loans and receivables				
Commercial	235,336	76,283	67,690	379,309
Consumer	7,825	41,900	11,690	61,415
Credit cards	67,580	106	7	67,693
Total	310,741	118,289	79,387	508,417

Of the total aggregate amount of gross past due but not yet impaired loans and receivables, the fair value of collaterals, capped with the respective outstanding total past due and not past due loan balances of the customer, that the Group held as at December 31, 2010 was TRY 209,674 (December 31, 2009- TRY 311,296).

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7. LOANS AND RECEIVABLES (continued)

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

	Current Period	Prior Period
Mortgage	167,528	245,548
Vehicle	24,017	41,852
Cash	2,134	2,417
Other	15,995	21,479
Total	209,674	311,296

8. FACTORING RECEIVABLES (net)

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Factoring receivables	606,451	7.00%-38.00%	2.00%-09.00%	376,553	9.00%-45.00%	2.00%-10.00%
Receivables in arrears	10,433			9,759		
Less: Reserve for impairment	(8,860)			(8,257)		
Less: Deferred income	(5,378)			(3,934)		
Net factoring receivables	602,646			374,121		

As of December 31, 2010, all of the factoring receivables have fixed interest rates (December 31, 2009 – TRY 14,906 of factoring receivables have floating interest rates and the rest have fixed interest rates).

Movements in the reserve for impairment:

	December 31, 2010	December 31, 2009
Reserve at beginning of year	8,257	5,460
Provision for impairment	2,604	3,599
Recoveries	(2,001)	(802)
Provision net of recoveries	603	2,797
Reserve at end of the year	8,860	8,257

The fair value of collaterals that TEB Faktoring holds relating to factoring receivables individually determined to be impaired at December 31, 2010 is TRY 535 (December 31, 2009 – TRY 649).

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9. MINIMUM LEASE PAYMENTS RECEIVABLE

The Bank sold 90.01% shares of its subsidiary TEB Finansal Kiralama A.Ş. to Fortis Finansal Kiralama A.Ş. for a consideration of TRY 113,345 as of September 30, 2010.

	December 31, 2009
Not later than 1 year	230,115
Later than 1 year but not later than 5 years	222,801
Later than 5 years	6,407
Minimum lease payments receivable, gross	459,323
Less: Unearned interest income	(64,499)
Net investment in financial leases	394,824
Lease receivables in arrears	22,247
Less : Reserve for impairment	(14,581)
Minimum lease payments receivable, net	402,490

Net investment in financial leases is analyzed as follows:

	December 31, 2009
Not later than 1 year	195,102
Later than 1 year but not later than 5 years	193,675
Later than 5 years	6,047
Total	394,824

As of December 31, 2009, TRY 389,601 of gross lease receivables are denominated in foreign currencies (mainly USD and EUR). The average interest rates are between 4.60% to 17.43% for foreign currency and 14.75% to 31.60% for TRY denominated receivables. Financial lease receivables have fixed interest rates.

Movements in the reserve for impairment:

	December 31, 2009
Reserve at beginning of year	7,981
Provision for impairment	19,073
Recoveries	(4,421)
Provision net of recoveries	14,652
Minimum lease payments receivable written off during the year	(8,052)
Reserve at end of the year	14,581

The fair value of collaterals that TEB Leasing holds relating to lease receivables individually determined to be impaired at December 31, 2009 is TRY 2,894.

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10. PREMISES AND EQUIPMENT

	Land and Buildings	Motor Vehicles	Furniture, Office Equipment, Leasehold Improvements	Total
At January 1, 2009, net of accumulated depreciation	13,938	529	157,388	171,855
Additions	-	-	19,829	19,829
Disposals	-	-	(739)	(739)
Depreciation charge for the year	(418)	(154)	(46,580)	(47,152)
Exchange adjustment	38	8	(4)	42
At December 31, 2009/January 1, 2010, net of accumulated depreciation	13,558	383	129,894	143,835
Additions	-	106	20,431	20,537
Disposals	-	(15)	(27)	(42)
Depreciation charge for the year	(340)	(125)	(45,698)	(46,163)
Exchange adjustment	(310)	(1)	6	(305)
Effect of the disposal of the subsidiary	-	-	(294)	(294)
At December 31, 2010, net of accumulated depreciation	12,908	348	104,312	117,568
At December 31, 2009				
Cost	18,336	724	312,066	331,126
Accumulated depreciation	(4,778)	(341)	(182,172)	(187,291)
Net carrying amount	13,558	383	129,894	143,835
At December 31, 2010				
Cost	17,980	794	326,859	345,633
Accumulated depreciation	(5,072)	(446)	(222,547)	(228,065)
Net carrying amount	12,908	348	104,312	117,568

As of December 31, 2010 the cost of fully depreciated items equals TRY 100,516 (December 31, 2009 - TRY 76,518).

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11. INTANGIBLE ASSETS

	Goodwill	Software Licenses and Other	Total
At January 1, 2009, net of accumulated amortization	1,205	11,656	12,861
Additions	-	9,570	9,570
Disposals	-	(368)	(368)
Amortization charge for the year	-	(6,574)	(6,574)
Exchange adjustment	-	(6)	(6)
At December 31, 2009, net of accumulated amortization	1,205	14,278	15,483
Additions	-	7,649	7,649
Amortization charge for the year	-	(7,590)	(7,590)
Exchange adjustment	-	(56)	(56)
Effect of the disposal of the subsidiary	-	(1,545)	(1,545)
At December 31, 2010, net of accumulated amortization	1,205	12,736	13,941
At December 31, 2009			
Cost (gross carrying amount)	1,205	43,908	45,113
Accumulated amortization and impairment	-	(29,630)	(29,630)
Net carrying amount	1,205	14,278	15,483
At December 31, 2010			
Cost (gross carrying amount)	1,205	49,030	50,235
Accumulated amortization and impairment	-	(36,294)	(36,294)
Net carrying amount	1,205	12,736	13,941

Goodwill relates to the acquisition of the minority (17.5%) shares of TEB Portföy by TEB Yatırım from ABN Amro Bank N.V. in 2005.

The cost of fully amortized items amounted to TRY 24,659 as of December 31, 2010 (December 31, 2009 - TRY 20,194).

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12. OTHER ASSETS

	December 31, 2010	December 31, 2009
Receivable from credit card payables	146,994	162,685
Cheque clearing accounts	143,243	112,330
Collaterals for derivatives	65,797	31,743
Other transitory accounts	36,857	30,794
Assets held for resale, net of impairment (Note 7)	33,982	20,341
Prepaid expenses	18,566	22,637
Advances given to suppliers	-	3,424
Prepaid income and other taxes	-	4,867
Leasing contracts in progress	-	930
Others	17,620	9,512
Total	463,059	399,263

13. DEPOSITS

Deposits from other banks

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Demand	163,107	-	-	97,638	-	-
Time	1,388,155	5.21%-7.00%	0.27%-6.12%	198,943	5.25%-14.15%	0.20%-3.10%
Total	1,551,262			296,581		

Customers' deposits

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign currency		Turkish Lira	Foreign Currency
Saving						
Demand	1,005,382	2.38%-6.00%	1.25%-2.23%	851,615	2.14%-7.57%	-
Time	5,219,670	8.57%-9.13%	1.42%-5.20%	5,215,382	8.64%-18.64%	1.34%-3.63%
	6,225,052			6,066,997		
Commercial and other						
Demand	1,774,283	0.44%-6.50%	0.79%-1.83%	1,538,038	7.00%-7.50%	1.83%
Time	3,613,274	7.50%-12.00%	2.04%-9.00%	2,461,668	8.21%-17.93%	2.56%-5.31%
	5,387,557			3,999,706		
Total	11,612,609			10,066,703		

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13. DEPOSITS (continued)

Customers' deposits (continued)

Included in customer accounts were deposits of TRY 468,877 (December 31, 2009 - TRY 373,170) held as collateral for cash and non-cash loans given.

Other money market deposits

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Obligations under repurchase agreements:						
-Due to customers and other financial institutions	10,792	2.61%-13.51%	-	231,228	6.58%-14.63%	-
-Due to banks	63,565	3.69%-8.60%	-	840,743	6.77%-13.82%	-
	74,357			1,071,971		

Deposits and other money market deposits amounting to TRY 32,956 have floating interest rates and the rest have fixed interest rates. (December 31, 2009 – TRY 57,109)

14. FUNDS BORROWED

	December 31, 2010		
	Amount	Effective interest rate	
		Turkish Lira	Foreign currency
Short-term			
Fixed interest	3,555,392	%6.00-%10.00	%1.05-%4.09
Floating interest	664,971	-	%1.73-%5.02
Medium/long-term			
Fixed interest	169,343	%7.25-%8.25	%1.70-%6.10
Floating interest	38,629	-	%1.66-%4.19
Fixed interest subordinated loan	225,968	-	%6.10
Floating interest subordinated loan	244,092	-	%3.31-%4.19
Total	4,898,395		

	December 31, 2009		
	Amount	Effective interest rate	
		Turkish Lira	Foreign currency
Short-term			
Fixed interest	1,895,270	7.06%-18.07%	1.97%-5.84%
Floating interest	109,262	-	2.18%-4.99%
Medium/long-term			
Fixed interest	275,811	-	4.00%-4.52%
Floating interest	177,336	-	1.97%-3.22%
Fixed interest subordinated loan	235,248	-	6.10%
Floating interest subordinated loan	245,326	-	3.41%-6.83%
Total	2,938,253		

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14. FUNDS BORROWED (continued)

Repayment plan of medium and long-term borrowings is as follows:

	December 31, 2010		December 31, 2009	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2011	-	-	101,904	71,097
2012	9,135	-	74,113	23,200
2013	-	19,298	13,441	26,140
2014	15,538	8,988	-	55,250
2015	-	78,291	-	75,802
Thereafter	370,638	176,144	321,601	171,173
Total	395,311	282,721	511,059	422,662

The Bank has signed an agreement with the International Finance Corporation (IFC) on July 17, 2002, for a subordinated loan of USD 15 million. The maturity of the loan is October 15, 2011 and interest rate is LIBOR+2.85%. USD 9 million principle of this subordinated loan was paid in three tranches on October 15, 2009, April 15, 2010 and October 15, 2010 in accordance with the terms of the main agreement.

The Bank has signed another agreement with the IFC on June 27, 2005, for a subordinated loan. The facility is a USD 50 million subordinated loan, with a maturity of July 15, 2015 and with an interest rate of LIBOR+3.18%.

The Bank has signed an agreement with the Economy Luxembourg S.A on October 27, 2006 for a subordinated loan. The facility is a EUR 110 million subordinated loan, with a maturity of October 31, 2016, and with a fixed interest rate of 6.10%.

The Bank has obtained a primary subordinated loan by issuing a bond amounting to USD 100 million as of July 31, 2007. The investor of the bond is IFC. The maturity of the borrowing is indefinite with semi-annually interest payment. The interest rate is defined as LIBOR+3.5% until July 31, 2017. In case the borrowed amount is not repaid at that date, the interest rate will be revised as LIBOR+5.25%.

As of December 31, 2010, the Bank has a syndication loan of EUR 190,000,000 and USD 100,000,000, obtained on September 3, 2010 with a maturity of September 2, 2011, under foreign borrowings.

Funds borrowed are unsecured.

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15. OTHER LIABILITIES AND PROVISIONS

	December 31, 2010	December 31, 2009
Other liabilities		
Cheque clearing account	274,720	93,225
Payables to credit card member firms	188,021	144,908
Payables regarding bonus card (a type of installment credit card) transactions	85,071	64,149
Taxes and compulsory surcharges other than on income	32,996	34,064
Trade and other payables	29,598	16,144
Bonus premium accrual	26,777	20,605
Other transitory accounts	18,062	128,776
Unused vacation pay liability	10,985	9,476
Blocked bank cheques	3,427	11,324
Payment orders	1,458	1,731
Advances taken	92	3,450
Others	28,736	30,649
	699,943	558,501
Provisions		
Employee termination benefits	25,122	18,512
Reserve for impairment of non-cash loans (specific and portfolio)	17,488	11,288
Provisions for possible outcomes of certain tax disputes	735	735
Provision for restructuring	228	-
Other provisions	2,500	-
	46,073	30,535
Total	746,016	589,036

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TRY 2,517 (full TRY) and TRY 2,365 (full TRY) at December 31, 2010 and 2009, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2010 and 2009, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	December 31, 2010	December 31, 2009
Discount rate	10.0 %	11.0 %
Expected rate of inflation	5.1 %	4.8 %

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15. OTHER LIABILITIES AND PROVISIONS (continued)

Movements in the present value of the defined benefit obligations in the current year were as follows:

	December 31, 2010	December 31, 2009
Opening defined benefit obligation	18,512	13,795
Current service cost	3,391	2,676
Interest cost	1,973	1,591
Settlement cost	953	1,473
Actuarial (gains)/ losses	3,001	2,410
Benefits paid	(2,460)	(3,433)
Effect of the sale of the subsidiary	(248)	-
Closing defined benefit obligation, recognized in the balance sheet	25,122	18,512

Amounts recognized in profit and loss in respect of defined benefit plan are as follows:

	December 31, 2010	December 31, 2009
Current service cost	3,391	2,676
Interest cost	1,973	1,591
Settlement cost	953	1,473
Actuarial (gains)/ losses	3,001	2,410
Total	9,318	8,150

16. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on each company's results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective tax rate was 20% at 2010 and 2009.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2010 (2009: 20%).

Losses are allowed to be carried for maximum 5 years to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1st and 25th of the fourth month following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within the following five years.

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16. INCOME TAXES (continued)

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, if any, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from April 24, 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from July 23, 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to April 24, 2003. Subsequent to this date, companies can deduct 40% of the investments within the scope of the investment incentive certificate and that are directly related to production facilities of the Group. The investments without investment incentive certificates do not qualify for tax allowance.

As of December 31, 2010, effective tax rate of the consolidated foreign subsidiaries established in the Netherlands is 25.5% (December 31, 2009 - 25.5%).

As of December 31, 2010 and 2009 advance income taxes are netted off with the current income tax liability as stated below:

	December 31, 2010	December 31, 2009
Income tax liability	93,187	52,191
Advance income taxes	(40,503)	(48,816)
	52,684	3,375

Major components of income tax expense for the year ended December 31, 2010 and 2009 are:

	December 31, 2010	December 31, 2009
Consolidated income statement		
Provisions for possible outcomes of certain tax disputes	-	(735)
Current income tax (charge)/benefit	(99,491)	(58,061)
Relating to origination and reversal of temporary differences	13,053	52,762
Income tax (charge)/benefit reported in consolidated income statement	(86,438)	(6,034)

Reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the year ended December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Profit before income tax	440,113	208,235
At Turkish statutory income tax rate of 20%	(88,023)	(41,647)
Income not subject to tax	(1,769)	(1,743)
Unused investment incentive	5,736	36,214
Income tax -provisions	-	(735)
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	(2,382)	1,877
Income tax	(86,438)	(6,034)

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16. INCOME TAXES (continued)

Deferred income tax

Deferred income tax at December 31, 2010 and 2009 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2010	2009	2010	2009
Deferred income tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	2,715	4,141	(1,426)	(590)
Effect of valuation of derivatives and hedge accounting	-	2,779	(2,779)	2,779
Others	9,663	5,767	3,896	(7,221)
Gross deferred income tax liabilities	12,378	12,687	(309)	(5,032)
Deferred income tax assets				
Impairment provisions	21,613	35,932	(14,319)	17,633
Effect of valuation of derivatives and hedge accounting	1,646	-	1,646	(12,872)
Valuation differences of trading and investment securities	7,271	6,474	798	(8,495)
Employee termination benefits and vacation pay liability	7,219	5,594	1,625	1,103
Unused investment allowances	-	36,214	(36,214)	36,214
Others	11,524	11,812	(288)	9,954
Effect of the sale of the subsidiary	-	-	44,223	-
Gross deferred income tax assets	49,273	96,026	(2,530)	43,537
Deferred income tax asset, net	36,895	83,339	(2,221)	48,569

	December 31, 2010	December 31, 2009
Deferred income tax credit (charge) recognized in equity	(15,239)	(4,198)
Foreign exchange effect	(35)	5
Deferred income tax credit (charge) recognized in income statement, net	13,053	52,762

Reflected as:

	December 31, 2010	December 31, 2009
Deferred tax asset	36,895	83,339
Deferred tax liability	-	-

Movement of net deferred tax asset can be presented as follows:

	December 31, 2010	December 31, 2009
Balance at January 1	83,339	34,770
Foreign exchange effect	(35)	5
Deferred income tax credit (charge) recognized in income statement	13,053	52,762
Deferred income tax credit (charge) recognized in equity	(15,239)	(4,198)
Effect of the sale of the subsidiary	(44,223)	-
Balance	36,895	83,339

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17. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period end and are neither indicative of the market risk nor credit risk.

	December 31, 2010			December 31, 2009		
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent
Derivatives held-for-trading						
Forward contracts	11,860	13,488	1,946,150	29,891	5,970	1,601,939
Currency swap contracts	38,338	8,302	3,530,505	13,056	16,060	2,136,885
Cross currency swap contracts	4,069	13,596	242,008	2,530	2,354	300,149
Interest rate swap contracts	4,464	24,178	461,132	5,052	9,022	338,514
Call & put option contracts	44,525	31,036	4,717,251	11,347	10,034	2,328,491
Other	268	6,168	869,478	230	14,549	536,359
	103,524	96,768	11,766,524	62,106	57,989	7,242,337

Fair value hedges

As of July 1, 2008, the Bank has started to apply fair value hedge accounting in order to avoid the effects of interest rate changes in the market by matching a portion of its swap portfolio with its loan portfolio.

	December 31, 2010			December 31, 2009		
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent
Derivatives used for hedging purposes						
Cross currency swap contracts	7,647	38,999	291,053	27,786	50,131	561,499
Interest rate swap contracts	3,510	17,548	200,000	3,544	23,362	200,000
	11,157	56,547	491,053	31,330	73,493	761,499

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18. SHARE CAPITAL

	December 31, 2010	December 31, 2009
Total number of shares, TRY 1.00 (full TRY) par value	1,100,000 Thousand	1,100,000 Thousand

Shares traded on the İstanbul Stock Exchange are in the form of units of two shares with a combined nominal value of TRY 1.00 (full TRY) each.

As of December 31, 2010 and December 31, 2009, the Bank's historical subscribed and issued share capital was TRY 1,100,000.

As of December 31, 2010 and December 31, 2009, the composition of shareholders and their respective ownerships are summarized below:

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
TEB Mali Yatırımlar A.Ş.	926,796	84.25	926,796	84.25
Publicly traded	171,966	15.63	171,966	15.63
Other shareholders	1,238	0.12	1,238	0.12
	1,100,000	100.00	1,100,000	100.00
Inflation restatement effect	926		926	
Total	1,100,926		1,100,926	

7% of the Bank's remaining net income after tax subsequent to deducting legal reserves and first dividends, corresponding to the Bank's 60,000 shares of TRY 30 (in full TRY) is distributed to the founder shares.

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19. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement of Legal Reserves and Retained Earnings

	December 31, 2010			December 31, 2009		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Retained Earnings	Total
At January 1	57,519	588,283	645,802	46,693	396,908	443,601
Issue of share capital	-	-	-	-	-	-
Transfer from retained earnings	3,306	(3,306)	-	10,826	(10,826)	-
Dividends paid (*)	-	(207,017)	(207,017)	-	-	-
Net profit for the year	-	353,675	353,675	-	202,201	202,201
Total	60,825	731,635	792,460	57,519	588,283	645,802

(*) The Extraordinary General Assembly held on October 19, 2010, approved the proposal of the Board of Directors resolution on the profit distribution no: 4450/93 dated October 1, 2010 to make a profit distribution of TRY 207,017 which is included in the reserves of the 2009 year-end financial statements to the shareholders; and has authorized the Board of Directors in regards to the procedures and transactions relevant to the profit distribution. The profit distribution process started commencing on October 25, 2010.

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the entity's share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% of all cash dividend distributions.

Dividends Paid and Proposed

Final dividends are not accounted for until they are ratified at the Annual General Meeting.

The Extraordinary General Assembly held on October 19, 2010, approved the proposal of the Board of Directors resolution on the profit distribution no: 4450/93 dated October 1, 2010 to make a profit distribution of TRY 207,017 which is included in the reserves of the 2009 year-end financial statements to the shareholders; and has authorized the Board of Directors in regards to the procedures and transactions relevant to the profit distribution. The profit distribution process started commencing on October 25, 2010.

Movements of Unrealized Gains/ Losses on Available-for-Sale Investments, Net of Tax

	December 31, 2010	December 31, 2009
At January 1	21,823	5,218
Net unrealized gains on AFS	106,840	76,054
Realized (gains) / losses on AFS recycled to income statement on disposal	(30,401)	(55,251)
Tax effect of net gains on AFS	(15,239)	(4,198)
Total	83,023	21,823

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20. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below.

	Opening	Cash	Transfers from Retained Earnings	Transfers From Revaluation Surplus	Reinvestment of Dividend Payments	Total	Closing
Before 1995	-	150	3,000	250	-	3,400	3,400
1996	3,400	-	-	330	1,270	1,600	5,000
1997	5,000	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	529	682	7,277	14,000	25,000
1999	25,000	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	110,250
2003	110,250	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	115,600
2006	57,800	18,700	-	-	-	18,700	76,500
2007	76,500	210,000	216,750	251,750	-	678,500	755,000
2008	755,000	345,000	-	-	-	345,000	1,100,000
2009	1,100,000	-	-	-	-	-	1,100,000
2010	1,100,000	-	-	-	-	-	1,100,000

There is no dilution of shares as of December 31, 2010 and 2009.

The following reflects the income (in full TRY) and share data (in thousand) used in the basic earnings per share computations:

	December 31, 2010	December 31, 2009
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	0.3215	0.1838
Weighted average number of ordinary shares for basic earnings per share	1,100,000	1,100,000

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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21. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of the Bank. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities including Fortis Bank Group are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the normal course of its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at year-ends and relating expense and income for the years are as follows:

December 31, 2010:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	24,509	40,782	2,016,232	1,024,799	14,134	11,488	168	67,721	3,380,029	4,346	75,987	38	5,581
Others	140,122	117,172	1,081,634	391,344	68,529	29,161	3	260	887,840	4,586	63,034	1,857	11,032

December 31, 2009:

Related party	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	1,603	46,004	509,383	282,015	14,085	29,436	255	46,292	1,956,211	6,061	127,791	153	10,130
Others	51,939	88,948	859,267	175,059	8,857	11,934	61	14,533	746,942	4,040	92,287	1,483	318

No provisions have been recognized in respect of loans given to related parties (December 31, 2009 - nil).

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TRY 24,358 as of December 31, 2010 (December 31, 2009 – TRY 25,024) comprising mainly of salaries and other short-term benefits.

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22. SALARIES AND EMPLOYEE BENEFITS

	December 31, 2010	December 31, 2009
Wages and salaries	318,622	298,235
Cost of defined contribution plan (employers' share of social security premiums)	38,726	33,106
Bonuses	21,414	17,075
Provision for employee termination benefits	9,264	8,012
Other fringe benefits	31,968	39,862
Total	419,994	396,290

23. OTHER OPERATING EXPENSES

	December 31, 2010	December 31, 2009
Maintenance and various administrative expenses	102,719	105,731
Rent expenses	77,890	75,757
Communication expenses	32,679	33,313
Merger and restructuring costs	25,239	-
Advertisement expenses	24,461	23,617
Total	262,988	238,418

24. NET GAIN/LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2010	December 31, 2009
Remeasurement of foreign currency position	164,521	185,233
Derivatives - held for trading fair value	(147,647)	(113,028)
Derivatives – hedging instruments- fair value	(14,796)	(37,071)
Remeasurement of interest-rate risk hedged portfolios	(12,941)	832
Net gain/loss on securities held for trading	(1,392)	7,093
Total	(12,255)	43,059

Gains less losses on trading securities arise primarily from fixed income securities.

25. FEES AND COMMISSIONS INCOME AND EXPENSES

	December 31, 2010	December 31, 2009
Fees and commissions income		
Banking (*)	577,959	359,169
Fund management	39,605	43,065
Brokerage	23,879	22,032
Total	641,443	424,266
Fees and commissions expenses		
Banking	148,733	131,167
Other	15,547	14,956
Total	164,280	146,123

(*) On October 18, 2010, the Bank signed an exclusive agency agreement with Cardif Hayat Sigorta A.Ş. for the distribution of life insurance products and has also signed an exclusive agency agreement with Fortis Emeklilik ve Hayat A.Ş. for the distribution of pension and life saving products, and received TRY 180,000 in consideration of these agreements.

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26. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	December 31, 2010	December 31, 2009
Letters of guarantee issued	3,052,806	2,722,851
Letters of credit	993,442	784,382
Acceptance credits	55,532	40,826
Other guarantees	314,530	207,612
Total non-cash loans	4,416,310	3,755,671
Other commitments	2,587,820	2,030,686
Credit card limit commitments	1,153,549	957,516
Letters of guarantee obtained	116,495	108,779
Total	8,274,174	6,852,652

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying financial statements.

The nominal values of the assets (excluding investment funds) held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TRY 3,642,810 at December 31, 2010 (December 31, 2009 - TRY 2,942,871). As of December 31, 2010, securities at custody include investment funds with market value of TRY 4,898,915 (December 31, 2009 - TRY 5,645,247).

The Group also manages twenty four investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Letters of Guarantee Given to İstanbul Stock Exchange (ISE) and İstanbul Gold Market (IGM)

As of December 31, 2010, in line with the requirements of IGM, letters of guarantee amounting to USD 410,000 (December 31, 2009 - USD 410,000) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of December 31, 2010, according to the general requirements of the ISE, letters of guarantee amounting to TRY 9,829, USD 17,254,500 and EUR 10,000 (December 31, 2009 - TRY 8,379, USD 12,500,000 and EUR 10,000) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Additionally, as of December 31, 2010 according to the general requirements, letters of guarantee amounting to TRY 1,413 (December 31, 2009 - TRY 1,413), were given to the Capital Markets Board.

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26. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

As of December 31, 2010 one of the loan customers filed a litigation case against the Bank, however, since the case is still in progress for expertise appointment and gathering supporting documents, the Bank could not yet evaluate the probable effects of the case on financial statements.

Other

Except for the Head-Office-İstanbul and İzmir-Konak Branch buildings, all branch premises of TEB are leased under operational leases. The lease periods vary between 1 and 10 years and lease agreements are cancelable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

27. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of matters reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

The mission of the Group Risk Management is to inform Board of Directors, General Management and the Audit Committee of the status of risks to which the Group is exposed and to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives. It compiles regulatory statements and financial reporting regarding risk management and measurement.

Each operating company is required to implement the Group's risk management policies and procedures. There is a designated Risk Officer in each operating company to ensure effective reporting and monitoring.

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Group. They have the ultimate responsibility of ensuring that senior management establishes and maintains an adequate and effective system of internal control.

The responsibility of the Audit Committee is to coordinate all the risk management activities within the bank and supervise the parties involved in Internal Control. In doing so, the Committee ensures establishment of an efficient and effective risk management.

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27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Bank and operating companies.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the Bank and operating companies. Along with the Credit Committee, Financial Institutions and Country Risk Committee and Retail Banking Credit Validation Committee work as a sub committee on a Group basis.

Credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporate and also guarantees. This system helps make decisions of allocating credit limits and accepted guarantees. There also exists collateral rating system based on type and quality of the collaterals.

Counterparty limits are daily monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are closely monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored on a daily basis.

The credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending and provisioning.

In order to control the concentration risk, sectoral limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to individual customers, customer groups and other risk concentrations in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, large non-performing accounts and impairment allowances as well as default and recovery rates.

Each operating company is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolio and controlling all credit risks.

After issuing a loan, Credit Monitoring Department of each company constantly monitors the customer's debt servicing credit solvency and the fair value of the collateral. The department has set up its credit monitoring process in a way which quickly helps to identify deviations in the customer's performance from the agreed forecasts, or possible non-compliance by the customer with the agreed terms and conditions of the loan.

A systematic bottom-up credit monitoring approach enables the Group to measure and identify possible problematic loans at an early stage. The Credit Monitoring Division prepares at least monthly a review of the loan servicing history and produces an assessment of the future credit solvency for each large exposure. Through the monitoring process, which is based on the assessment of the loan recovery and the evaluation of the counterparty, the Credit Monitoring and Legal Action Division calculates the amount of risk capital required to cover expected losses and risk for each loan.

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27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Assessing the customer's recent performance there may be early signs of delinquency or other irregular symptoms detected in an account, warranting a more detailed review of the credit-worthiness and the repayment ability of the customer concerned. If there is a doubt about a customer's loans, the customer is included in a precautionary watch list. It is advised to request additional collateral for such customers. Credit Monitoring Unit has the authority of blocking/unblocking credit lines if there is a defectiveness or insufficient situation.

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. Additionally, a portfolio based assessment is performed for homogeneous groups of credit.

Since the volume of the restructured loans is not material to the financial statements, no additional follow up methodology is developed, except as stated in the regulations.

Netting is a technique used by the Group to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

An industry sector analysis of the Group's financial assets, non-cash loans and commitments are as follows;

	December 31, 2010	December 31, 2009
Hotels, Tourism, Leisure	4,857	3,900
Finance	1,328,892	967,683
Banks	3,313,201	3,160,197
Government	3,860,687	2,716,452
Food	1,983,718	1,674,360
Private individuals	4,481,819	3,338,931
Transportation	1,064,207	833,338
Chemical	850,073	599,865
Wholesaler	858,109	587,543
Automotive	307,487	404,409
Healthcare & Pharmacy	28,534	48,189
Construction & public works	1,188,609	1,109,164
Equipment materials	366,001	304,542
Technology	367,827	273,139
Energy	331,390	298,739
Ores & Materials	6,830,294	5,656,846
Property	13,317	11,812
Others	1,680,918	1,170,284
Total	28,859,940	23,159,393

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27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The table below shows the maximum exposure to credit risk for the components of the financial statements;

	December 31, 2010	December 31, 2009
Gross maximum exposure		
Cash and balances with Central Banks (excluding cash on hand)	1,817,407	1,333,065
Deposits with and loans due from banks and other financial institutions	1,380,874	1,029,378
Other money market placements	238	704,319
Financial assets at fair value through profit and loss	216,188	200,023
Derivative used for hedging purposes	11,157	31,330
Available -for-sale financial assets	3,515,011	1,678,893
Held-to-maturity investments	235,019	901,640
Loans and receivables, factoring and minimum lease payments receivable	12,913,165	9,982,241
Remeasurement adjustment on interest-rate risk hedged portfolios	33,648	46,589
Other assets	463,059	399,263
Total	20,585,766	16,306,741
Contingent liabilities	4,416,310	3,755,671
Commitments	3,857,864	3,096,981
Total	8,274,174	6,852,652
Total credit risk exposure	28,859,940	23,159,393

Credit quality per class of financial assets as of December 31, 2010 and 2009 are as follows;

December 31, 2010	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Deposits with and loans due from banks and other financial institutions	1,380,874	-	-	1,380,874
Financial assets designated at fair value through profit or loss	216,188	-	-	216,188
Loans and receivables	11,745,180	674,938	(109,599)	12,310,519
Commercial	8,713,021	501,128	(85,421)	9,128,728
Consumer	2,480,892	93,053	(14,169)	2,559,776
Credit Cards	504,616	80,757	(10,009)	575,364
Other	46,651	-	-	46,651
Factoring receivables	588,451	14,964	(769)	602,646
Minimum lease payments receivable	-	-	-	-
Remeasurement adjustment on interest rate risk hedged portfolio	33,648	-	-	33,648
Investment Securities				
Available-for-sale	3,515,011	-	-	3,515,011
Held-to-maturity	235,019	-	-	235,019
Total	17,714,371	689,902	(110,368)	18,293,905

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27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

December 31, 2009	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Deposits with and loans due from banks and other financial institutions	1,029,378	-	-	1,029,378
Financial assets designated at fair value through profit or loss	200,023	-	-	200,023
Loans and receivables	8,676,631	683,175	(154,176)	9,205,630
Commercial	6,578,934	528,415	(87,558)	7,019,791
Consumer	1,661,168	61,846	(22,739)	1,700,275
Credit Cards	413,164	92,914	(43,879)	462,199
Other	23,365	-	-	23,365
Factoring receivables	344,265	32,264	(2,408)	374,121
Minimum lease payments receivable	303,605	104,216	(5,331)	402,490
Remeasurement adjustment on interest rate risk hedged portfolio	46,589	-	-	46,589
Investment Securities	2,580,533	-	-	2,580,533
Available-for-sale	1,678,893	-	-	1,678,893
Held-to-maturity	901,640	-	-	901,640
Total	13,181,024	819,655	(161,915)	13,838,764

Carrying amount per class of financial assets whose terms have been renegotiated:

	December 31, 2010	December 31, 2009
Loans and receivables		
Commercial	122,144	129,347
Consumer	2,957	4,529
Credit Cards	4,162	8,183
Total	129,263	142,059

Credit Rating System

The credit risk is assessed through the internal rating system of the Bank, by classifying loans from highest grade to lowest grade according to the probability of default. As of December 31, 2010, consumer loans and business loans are excluded from the internal rating system of the Bank and those loans are 37% of total loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total %
1st Category	The borrower has a very strong financial structure	28.56
2nd Category	The borrower has a good financial structure	19.63
3rd Category	The borrower has an intermediate level of financial structure	33.68
4th Category	The financial structure of the borrower has to be closely monitored in the medium run	18.13
Total		100.00

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27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflow to fulfill the cash outflow completely on time.

The Group's policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self sufficient with regard to funding requirements for its own operations.

The Group's liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

Asset and Liability Management Committee (ALCO) defines ALM policies and monitor the results weekly. Asset Liability Management (ALM) Department has the responsibility for managing funding on money markets and financial markets from short to medium and long term financing and also provides funds to core business lines at TEB and Economy Bank and to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

The main source of funding to cover the liquidity requirements is customer deposits and in addition to this source, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source. Generally the Group does not prefer the liquidity generated from interbank money markets to become the main form of funding and accordingly the Group is generally a net lender in interbank money markets.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important among these is to maintain limits on the ratio of the Bank's net liquid assets to customer liabilities, set to reflect market conditions. The ratio realized during the year was as follows:

	December 31, 2010 %	December 31, 2009 %
Average during the year	20	29
Highest	27	39
Lowest	16	20

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27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

	Up to 1 Month	1 to 3 Months	3 months to 1 year	Over 1 year	Unallocated	Total
As at December 31, 2010						
Assets:						
Cash and balances with central banks	2,132,807	-	-	-	-	2,132,807
Deposits with and loans due from banks and other financial institutions	864,039	210,942	239,444	66,449	-	1,380,874
Other money market placements	238	-	-	-	-	238
Financial assets at fair value through profit and loss	67,743	22,651	95,973	29,821	-	216,188
Derivatives used for hedging purposes	-	187	9,870	1,100	-	11,157
Available-for-sale financial assets	69,754	397	602,301	2,842,559	-	3,515,011
Loans and receivables	5,327,001	807,736	1,588,109	4,457,927	129,746	12,310,519
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	33,648	-	33,648
Held-to-maturity investments	106,040	-	305	128,674	-	235,019
Factoring receivables, net	343,666	94,072	162,566	-	2,342	602,646
Minimum lease payments receivable	-	-	-	-	-	-
Premises and equipment	-	-	-	-	117,568	117,568
Intangible assets	-	-	-	-	13,941	13,941
Deferred tax asset	-	-	-	-	36,895	36,895
Other assets	401,849	1,432	398	89	59,291	463,059
Total assets	9,313,137	1,137,417	2,698,966	7,560,267	359,783	21,069,570
Liabilities:						
Deposits from other banks	1,539,963	8,133	3,166	-	-	1,551,262
Customers' deposits	10,088,969	1,209,383	231,778	82,479	-	11,612,609
Other money market deposits	74,357	-	-	-	-	74,357
Financial liabilities at fair value through profit and loss	11,857	11,402	28,396	45,113	-	96,768
Derivatives used for hedging purposes	-	372	23,247	32,928	-	56,547
Funds borrowed	817,706	1,596,855	1,808,281	675,553	-	4,898,395
Other liabilities	663,285	23,278	2,393	15	10,972	699,943
Provisions	-	-	-	-	46,073	46,073
Income taxes payable	-	-	52,684	-	-	52,684
Total liabilities	13,196,137	2,849,423	2,149,945	836,088	57,045	19,088,638
Net liquidity gap	(3,883,000)	(1,712,006)	549,021	6,724,179	302,738	1,980,932
As at December 31, 2009						
Total assets	7,555,227	1,249,916	3,120,918	4,465,127	486,181	16,877,369
Total liabilities	11,338,475	1,586,437	1,081,249	1,060,544	30,696	15,097,401
Net liquidity gap	(3,783,248)	(336,521)	2,039,669	3,404,583	455,485	1,779,968

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27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
As of December 31, 2010								
Customers' deposits	2,779,665	7,327,309	1,219,961	237,211	90,360	-	(41,897)	11,612,609
Deposits from other banks	163,107	1,377,497	8,187	3,281	-	-	(810)	1,551,262
Funds borrowed	-	821,772	1,612,066	1,874,121	254,614	578,936	(243,114)	4,898,395
Other money market deposits	-	74,454	-	-	-	-	(97)	74,357
Total	2,942,772	9,601,032	2,840,214	2,114,613	344,974	578,936	(285,918)	18,136,623
As of December 31, 2009								
Customers' deposits	2,389,653	6,094,914	1,282,478	221,423	123,388	-	(45,153)	10,066,703
Deposits from other banks	97,638	133,625	60,256	5,270	-	-	(208)	296,581
Funds borrowed	-	990,406	251,306	893,390	432,782	633,259	(262,890)	2,938,253
Other money market deposits	-	1,073,776	-	-	-	-	(1,805)	1,071,971
Total	2,487,291	8,292,721	1,594,040	1,120,083	556,170	633,259	(310,056)	14,373,508

Analysis of contractual expiry by maturity of the Group's some class of derivative financial instruments;

	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
As of December 31, 2010						
Hedging Portfolio						
Fair value hedge	290	263	137,009	36,878	54,510	228,950
Trading Portfolio						
Forward contracts	389,104	274,816	302,643	7,571	-	974,134
Currency swaps	817,883	60,625	670,796	357,236	-	1,906,540
Interest rate swaps	63	9,828	8,658	43,179	5,055	66,783
Foreign currency futures-sell	-	25,076	227,192	-	-	252,268
Foreign currency options-sell	549,842	530,740	1,073,571	8,621	32,901	2,195,675
Total	1,757,182	901,348	2,419,869	453,485	92,466	5,624,350
As of December 31, 2009						
Hedging Portfolio						
Fair value hedge	53,145	1,428	129,455	166,432	62,240	412,700
Trading Portfolio						
Forward contracts	352,364	211,116	206,776	43,965	-	814,221
Currency swaps	827,674	118,893	114,647	213,511	-	1,274,725
Interest rate swaps	248	6,740	5,912	34,101	-	47,001
Foreign currency futures-sell	136,586	55,898	55,898	-	-	248,382
Foreign currency options-sell	516,327	340,034	293,463	-	-	1,149,824
Total	1,886,344	734,109	806,151	458,009	62,240	3,946,853

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27. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by Banking Regulation and Supervision Agency (BRSA), Capital Markets Board and other authorities. Only securities held to maturity are valued at amortized cost using internal rate of return.

The Board of Directors evaluates the probable risks and accordingly determines limits. Those limits are revised periodically in line with the strategies of the Group. The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

The Group Risk Management calculates and follows the VaR amount of portfolios and sets nominal stop loss and position limits for each product.

Currency Risk

The Group evaluates the exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate fluctuations in the market.

The Board of Directors sets limits for the positions, which are followed up on a daily basis. Additionally, any possible changes in positions are closely monitored.

Generally, Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

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27. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	Turkish Lira	Euro	US Dollars	Other	Total
As at December 31, 2010					
Assets:					
Cash and balances with central banks	801,645	570,507	684,897	75,758	2,132,807
Deposits with and loans due from banks and other financial institutions	510,535	410,849	440,816	18,674	1,380,874
Other money market placements	238	-	-	-	238
Financial assets at fair value through profit and loss	187,769	6,912	18,881	2,626	216,188
Derivatives used for hedging purposes	11,114	-	43	-	11,157
Available-for-sale financial assets	2,999,263	296,989	218,759	-	3,515,011
Loans and receivables	8,437,723	1,061,140	2,376,261	435,395	12,310,519
Remeasurement adjustment on interest rate risk hedged portfolios	33,648	-	-	-	33,648
Held-to-maturity investments	217,604	8,340	9,075	-	235,019
Factoring receivables, net	371,230	60,757	154,821	15,838	602,646
Minimum lease payments receivable	-	-	-	-	-
Premises and equipment	110,333	7,235	-	-	117,568
Intangible assets	13,020	921	-	-	13,941
Deferred tax asset	35,166	1,729	-	-	36,895
Other assets	392,039	29,127	41,838	55	463,059
Total assets	14,121,327	2,454,506	3,945,391	548,346	21,069,570
Liabilities:					
Deposits from other banks	1,228,288	189,242	107,044	26,688	1,551,262
Customers' deposits	7,258,413	1,710,263	2,413,989	229,944	11,612,609
Other money market deposits	74,357	-	-	-	74,357
Financial liabilities at fair value through profit and loss	64,433	388	28,942	3,005	96,768
Derivatives used for hedging purposes	56,547	-	-	-	56,547
Funds borrowed	2,516,634	1,480,306	869,251	32,204	4,898,395
Other liabilities	684,890	8,610	5,864	579	699,943
Provisions	46,073	-	-	-	46,073
Income taxes payable	51,995	689	-	-	52,684
Total liabilities	11,981,630	3,389,498	3,425,090	292,420	19,088,638
Net balance sheet position	2,139,697	(934,992)	520,301	255,926	1,980,932
Off-balance sheet position					
Net notional amount of derivatives	45,890	1,210,668	(694,898)	(229,470)	332,190
Non-cash loans (*)	1,985,101	713,757	1,670,138	47,314	4,416,310
Net position	2,185,588	275,675	(174,596)	26,455	2,313,122
At December 31, 2009					
Total assets	11,045,238	2,370,771	3,088,574	372,786	16,877,369
Total liabilities	8,803,233	2,989,573	3,071,948	232,647	15,097,401
Net balance sheet position	2,242,005	(618,802)	16,626	140,139	1,779,968
Off-balance sheet position					
Net notional amount of derivatives	(567,817)	781,482	(38,002)	(155,479)	20,184
Non-cash loans (*)	1,532,701	752,192	1,423,259	47,519	3,755,671
Net position	1,674,188	162,680	(21,376)	(15,340)	1,800,152

(*) There is no effect on the net off-balance sheet position.

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27. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table indicates in detail the Group's sensitivity to a 10% increase and decrease in the TRY against USD and EUR 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	Increase /(Decrease) Effect on profit or loss		Increase /(Decrease) Effect on equity excluding PL	
		December 31, 2010	December 31,2009	December 31, 2010	December 31,2009
		USD	10 increase	(17,460)	(2,138)
USD	10 decrease	17,460	2,138	(151)	(393)
EUR	10 increase	27,568	16,268	11,022	10,331
EUR	10 decrease	(27,568)	(16,268)	(11,022)	(10,331)

The Group's sensitivity to foreign currency rates has not changed significantly during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of a change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of a change in market interest rates. The Group evaluates the exposure for the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position.

Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The ALCO is responsible of managing interest rate risk at the Bank.

The first principle of the Group regarding interest rate risk is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board of Directors, ALCO and the Audit Committee.

Maturities of outstanding assets are based on the contractual characteristics of the transactions.

Interest rate sensitivity:

If interest rates had been increased by 0.5% in TRY and FC and all other variables were held constant, the Group's:

- Profit for the year would have changed by TRY 5,919 (December 31, 2009 - TRY 4,884).

The interest rate sensitivity the Group is exposed to due to its balance sheet composition is calculated with the net interest income approach. The net interest income is calculated by using the original interest rates until maturity and using market interest curves until the remaining annualized period subject to analysis. This calculation is re-performed by altering the market interest curves based on rate changes accepted by management. The difference between the initial and re-performed calculation is assessed to be the interest sensitivity of the Group.

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27. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at December 31, 2010						
Assets :						
Cash and balances with central banks	39,870	-	-	-	2,092,937	2,132,807
Deposits with and loans due from banks and other financial institutions	660,152	210,942	247,139	58,754	203,887	1,380,874
Other money market placements	238	-	-	-	-	238
Financial assets at fair value through profit and loss	55,475	8,026	56,349	17,831	78,507	216,188
Derivatives used for hedging purposes	-	187	2,267	1,100	7,603	11,157
Available-for-sale financial assets	279,831	77,007	1,001,539	2,137,224	19,410	3,515,011
Loans and receivables	5,345,523	1,007,550	1,598,444	4,167,089	191,913	12,310,519
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	33,648	-	33,648
Held-to-maturity investments	106,040	66,789	45,080	17,110	-	235,019
Factoring receivables, net	343,666	94,072	162,566	-	2,342	602,646
Minimum lease payments receivable	-	-	-	-	-	-
Premises and equipment	-	-	-	-	117,568	117,568
Intangible assets	-	-	-	-	13,941	13,941
Deferred tax asset	-	-	-	-	36,895	36,895
Other assets	-	-	-	-	463,059	463,059
Total Assets	6,830,795	1,464,573	3,113,384	6,432,756	3,228,062	21,069,570
Liabilities:						
Deposits from other banks	1,442,067	8,133	3,166	-	97,896	1,551,262
Customers' deposits	7,764,734	1,215,119	289,102	13,860	2,329,794	11,612,609
Other money market deposits	74,357	-	-	-	-	74,357
Financial liabilities at fair value through profit and loss	861	97	256	37,545	58,009	96,768
Derivatives used for hedging purposes	-	372	21,999	30,739	3,437	56,547
Funds borrowed	1,061,906	1,614,019	1,827,163	395,307	-	4,898,395
Other liabilities	-	-	-	-	699,943	699,943
Provisions	-	-	-	-	46,073	46,073
Income taxes payable	-	-	-	-	52,684	52,684
Total liabilities	10,343,925	2,837,740	2,141,686	477,451	3,287,836	19,088,638
Balance sheet interest sensitivity gap	(3,513,130)	(1,373,167)	971,698	5,955,305	(59,774)	1,980,932
As at December 31, 2009						
Total assets	6,853,481	1,531,739	2,954,181	3,954,540	1,583,428	16,877,369
Total liabilities	8,993,552	1,616,914	1,146,875	644,173	2,695,887	15,097,401
Net interest sensitivity gap	(2,140,071)	(85,175)	1,807,306	3,310,367	(1,112,459)	1,779,968

Capital Adequacy

To monitor the adequacy of its capital, the Group uses ratios established by the BRSA. The minimum ratio is 8% (12% for banks operating in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The bank has operations in offshore markets as well. As of December 31, 2010, the Group's consolidated capital adequacy ratio is 13.64% (December 31, 2009 - 16.95%).

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27. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate and/or failed internal process and systems, arising from negligence or fraud of the staff members or stemming from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning, business continuity and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

The Compliance Function in Group Companies

The definition of compliance is adherence to statutory and regulatory provisions, professional and ethical standards, guidelines issued by the Board of Directors and Audit Committee and internal rules and procedures.

The Compliance Function is responsible for the coordination of permanent control among the Group in respect of the risk of non-compliance and operational risk. It shares this responsibility with other Functions like Risk Management, Legal, Operations, and Finance for their areas of competence. Its missions and responsibilities and delegations of powers it grants are specified in a responsibilities charter.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Financial assets				
Loans and receivables	12,310,519	9,205,630	12,547,043	9,405,574
Investment securities held-to-maturity	235,019	901,640	271,796	939,553
Factoring receivables	602,646	374,121	602,646	374,121
Minimum lease payments receivable (*)	-	402,490	-	389,064
Financial liabilities				
Deposits from other banks and funds borrowed	6,449,657	3,234,834	6,448,805	3,235,105
Customers' deposits	11,612,609	10,066,703	11,603,892	9,959,196
Other money market deposits	74,357	1,071,971	74,357	1,071,971

(*) The Bank sold 90.01% shares of its subsidiary TEB Finansal Kiralama A.Ş. to Fortis Finansal Kiralama A.Ş. for a consideration of TRY 113,345 as of September 30, 2010. The remaining 9.99% shares are presented in the available for sale financial assets and accounted for at fair value in accordance with IAS 39.

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28. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Values (continued)

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Minimum Lease Payments Receivable

Estimated fair value of lease contracts receivable represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and Borrowings

The estimated fair value of deposits from other banks and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central banks, deposits with and loans due from banks and other financial institutions, other money market placements, factoring receivables and payables are considered to approximate their respective carrying values due to their short-term nature.

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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28. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value of Financial Instruments (continued)

December 31, 2010	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at fair value through profit and loss	112,664	103,524	-	216,188
Debt instruments	112,664	-	-	112,664
Derivatives held-for-trading	-	103,524	-	103,524
Derivatives used for hedging purposes	-	11,157	-	11,157
Available-for-sale financial assets	3,500,338	14,673	-	3,515,011
Debt instruments	3,489,407	-	-	3,489,407
Available-for-sale securities	10,931	14,673	-	25,604
Remeasurement adjustment on interest rate risk hedged portfolios	-	33,648	-	33,648
Financial Liabilities				
Financial liabilities at fair value through profit and loss	6,168	90,600	-	96,768
Derivatives held-for-trading	6,168	90,600	-	96,768
Derivatives used for hedging purposes	-	56,547	-	56,547
December 31, 2009				
Financial Assets				
Financial assets at fair value through profit and loss	137,917	62,106	-	200,023
Debt instruments	137,917	-	-	137,917
Derivatives held-for-trading	-	62,106	-	62,106
Derivatives used for hedging purposes	-	31,330	-	31,330
Available-for-sale financial assets	1,676,803	2,090	-	1,678,893
Debt instruments	1,673,594	-	-	1,673,594
Available-for-sale securities	3,209	2,090	-	5,299
Remeasurement adjustment on interest rate risk hedged portfolios	-	46,589	-	46,589
Financial Liabilities				
Financial liabilities at fair value through profit and loss	14,497	43,492	-	57,989
Derivatives held-for-trading	14,497	43,492	-	57,989
Derivatives used for hedging purposes	-	73,493	-	73,493

There is no transition between Level 1 and Level 2 in the current year.

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29. OTHER INFORMATION

BNP Paribas, holding 50% of TEB Mali Yatırımlar A.Ş. ("TEB Mali") which holds the controlling shareholding of 84.25% of the Bank, has acquired 75% of the shares of Fortis Bank Belgium being the main shareholder of Fortis Bank A.Ş. with 94.11% shareholding, from the State of Belgium based on the resolutions taken at Fortis Holding General Assembly of Shareholders held in Belgium and Netherlands on April 28 and 29, respectively. The share transfer procedures were completed as of May 13, 2009.

On September 23, 2009, the BRSA has announced its consent on indirect acquisition of 70.52% of total shares of Fortis Bank A.Ş. by BNP Paribas with the 18th article of the Banking Act No: 5411.

BNP Paribas and the Çolakoğlu Group, the indirect controlling shareholders of TEB, have entered into a Memorandum of Understanding concerning the merger of Türk Ekonomi Bankası A.Ş. ("TEB") and Fortis Bank A.Ş. on June 3, 2010. Under the Memorandum of Understanding, it has been agreed, subject to BRSA approval, that the two banks will be merged under TEB. Upon approval of the regulatory authorities, as a result of share transfers between the main shareholders following the merger, it is contemplated that TEB Mali shall remain as the majority shareholder in TEB and that Çolakoğlu Group and BNP Paribas Group will each continue to hold 50% of TEB Mali. The proposed transactions are subject to execution of definitive contracts and receipt of approvals from various regulatory and corporate bodies.

Following the preparatory studies carried out by TEB and Fortis Bank A.Ş. on the merger feasibility report, to commence implementation of the merger and restructuring transactions, the Board of Directors of TEB resolved on July 12, 2010 that; June 30, 2010 financial statements of the respective merging banks will be the basis for the merger, the effects of restructuring transactions taking place following this date on the merger financial statements shall be considered in the audit report and during the valuation studies of appraiser as well as determining the merger ratio, an independent appraiser be appointed to carry out the valuation studies; and accordingly, TEB General Management was authorized to apply to the BRSA for the purposes of obtaining pre-approval as per the relevant regulation of the BRSA to commence and proceed with the merger procedures.

As per the Memorandum of Understanding dated June 3, 2010, the indirect controlling shareholders of TEB, BNP Paribas Group and Çolakoğlu Group, have completed their negotiations and reached to an agreement on the shareholders agreement and other relevant documents on July 24, 2010. Accordingly, subsequent to obtaining all necessary regulatory approvals and respective corporate approvals, the merger will be realized under TEB. TEB Mali will continue to be the principal shareholder of TEB, and Çolakoğlu Group and BNP Paribas Group will respectively hold 50% shares of TEB Mali.

According to the resolution of the BRSA dated September 21, 2010 and numbered 3859; as per the 19th Article of the Banking Act No: 5411 and Article 5 of the Communiqué on "Merger, Take-over, Division and Transfer of Shares for the Banks", it was decided to commence the procedures to cease the legal entity of Fortis Bank A.Ş. and transfer all of its assets and liabilities with respective rights and obligations to TEB, provided that all necessary approvals from other authorities are obtained.

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29. OTHER INFORMATION (continued)

TEB held an Extraordinary General Assembly on October 19, 2010. At this meeting, the appointment of new members of the board of directors and statutory auditors were affirmed; the financial statements that will be taken as the basis for the merger with Fortis Bank A.Ş. were approved; the draft merger agreement was approved; and the Bank's Board of Directors was granted with the authorization to finalize and sign the merger agreement and also make the necessary amendments to the articles of association in relation to the merger. In addition, at the same meeting, the Board of Directors accepted the proposed profit distribution based on the resolution no: 4450/93 of the Board of Directors dated October 1, 2010 and approved without any amendments or objections; to make a profit distribution of TRY 207,017 which is included in the reserves of the 2009 year-end financial statements to the shareholders; and has granted authorization to the Board of Directors in regards to the procedures and transactions relevant to the profit distribution. The profit distribution process has started commencing on October 25, 2010.

Following the Extraordinary General Assembly held on October 19, 2010 by the merging parties, the related applications were filed to the Capital Markets Board ("CMB") as at October 26, 2010 in accordance with the Article 11 of the Communiqué Serial: I No: 31 of the CMB based on the approval requirement of the CMB.

It was resolved at the Board of Directors meeting of the Bank on November 25, 2010 that 49.90% merger and 1.0518 exchange ratios had been determined as fair and reasonable based on the expert reports of İstanbul 10th Commercial Court and Ernst Young Kurumsal Finansman Danışmanlık A.Ş. It was further resolved that as a result of the increased capital of TRY 1,104,390 in TEB due to the merger, it was proposed that 1 Fortis Bank A.Ş. share shall be exchanged for 1.0518 share of TEB.

In the foregoing expert reports, subsequent events after June 30, 2010 affecting the equity and the financial statements of TEB and Fortis Bank A.Ş. have been taken into account, and calculations have been made based on the "net assets method", "discounted dividend method" and "market multiples method".

The foregoing merger transaction, the merger ratios, the capital increase amount and the merger agreement were approved by the decision of the CMB dated December 21, 2010 and numbered 37/1145 before the general assemblies of the respective banks. However, it was also stated that this approval was not an official guarantee of the merger to be recognized by the CMB board and the public. Subsequent to the CMB approval, the required merger disclosures have been made publicly. Following the CMB approval described above and the BRSA approval dated December 30, 2010 and numbered 3998, the merger agreement including ratios and increased capital amount were submitted to the approval of the shareholders at the Extraordinary General Assemblies of the respective banks held on January 25, 2011, and the merger of the two banks was approved with the decision to cease the legal entity of Fortis Bank A.Ş. and transfer all of its assets and liabilities with respective rights and obligations to TEB.

Following the announcement of the BRSA approval dated February 10, 2011 at the Official Gazette dated February 12, 2011 and numbered 27844, the merger of two banks by means of transfer of all rights, receivables, liabilities and obligations to TEB by dissolution of Fortis Bank A.Ş. has been effectuated with the relevant registration dated February 14, 2011 with İstanbul Trade Registry.

Due to the merger, ceiling for the registered capital of the Bank is increased from TRY 1,400,000 to TRY 2,204,390 and the issued capital of the Bank is increased by TRY 1,104,390, from TRY 1,100,000 to TRY 2,204,390. Registered shares to be issued due to the merger will be distributed to the shareholders of dissolved Fortis Bank A.Ş., due to the merger, to be exchanged with their current shares. Fortis Bank A.Ş. shareholders received 1.0518 registered TEB shares for each Fortis Bank A.Ş. share having a nominal value of TRY 1.

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29. OTHER INFORMATION (continued)

Due to the termination of the legal entity Fortis Bank A.Ş. as a result of the de-registration, no resolution regarding the distribution of the profit of the year 2010 will be made, and there will not be any profit distribution accordingly.

As a result of the merger, distribution of the merged Bank's capital of TL 2,204,390 among the shareholders is set forth below:

	Share Capital	
	Capital Amount (TRY)	Ratio (%)
Fortis Bank SA/NV	1,039,357	47.15
TEB Mali Yatırımlar A.Ş.	926,796	42.04
Publicly traded	236,999	10.75
Other shareholders	1,238	0.06
Total	2,204,390	100.00

As declared in the public disclosure dated June 3, 2010 and the following public disclosures, and within the framework of the agreement between BNP Paribas Group and Çolakoğlu Group, restructuring procedures to allow TEB Mali to continue being the majority shareholder of the Bank and to allow each of Çolakoğlu Group and BNP Paribas Group to hold 50% of the shares in TEB Mali following the merger will now be carried out, subject to the required approvals of the regulatory authorities.

Accordingly, as a result of the abovementioned restructuring procedures, which include a capital increase in TEB Mali and several share transfers, TEB Mali's shareholding ratio in the Bank is aimed to be increased to 55%, and the shareholding ratios of each of Çolakoğlu Group and BNP Paribas Group in TEB Mali are aimed to be 50%, subject to the required approvals of the regulatory authorities.

In the Board of Directors meeting of TEB Mali Yatırımlar A.Ş., it has been resolved that capital of TEB Mali be increased from TRY 500,000 to TRY 590,863; title of the Company be amended as TEB Holding A.Ş. and the general assembly be invited to extraordinary meeting following the approvals from the regulatory authorities in order to discuss the other amendments to the articles of association.

As a result of the intended capital increase, TEB Mali (TEB Holding A.Ş.) shares, held by BNP Paribas Fortis Yatırımlar Holding A.Ş. will be increased from 50% to 57.28% and the shareholding ratio of Çolakoglu Group will be decreased from 50% to 42.72%. However, as declared in the public disclosure dated June 3, 2010 and following disclosures with regard to the merger:

- (i) In order to maintain TEB Mali (TEB Holding A.Ş.) as the main shareholder in TEB following the merger, share transfer agreements have been signed on February 23, 2011 for the transfer of 12.72% of TEB shares, held by Fortis Bank SA/NV and 0.238% of TEB shares held by Çolakoğlu Group to TEB Mali.

As a result of the transactions explained above, TEB Mali's (TEB Holding A.Ş.) shareholding ratio in TEB will be increased to 55%.

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29. OTHER INFORMATION (continued)

Another share transfer agreement has been signed on February 23, 2011 for the transfer of TEB shares from Fortis Bank SA/NV to BNPP Yatırımlar Holding A.Ş. and BNP Paribas Fortis Yatırımlar Holding A.Ş. following the approvals from the regulatory authorities, as further described in the table below:

Seller	Shares of TEB subject to sales (%)	Purchaser
Fortis Bank SA/NV	20.35	BNPP Yatırımlar Holding A.Ş.
Fortis Bank SA/NV	14.08	BNP Paribas Fortis Yatırımlar Holding A.Ş.
Total	34.43	

Within the scope of the agreements explained above and following the necessary approvals, final shareholding structure of TEB will be as follows:

Shareholders	TEB Share Ratio (%)
TEB Mali Yatırımlar A.Ş. (TEB Holding A.Ş.)	55.00
BNPP Yatırımlar Holding A.Ş.	20.35
BNP Paribas Fortis Yatırımlar Holding A.Ş.	14.08
Publicly traded	10.51
Other	0.06
Total	100.00

- (ii) Following the transactions described above, in order to provide that shareholding ratio of each Çolakoğlu Group and BNP Paribas Group in TEB Mali (TEB Holding A.Ş.) be 50%, another share transfer agreement has been signed on February 23, 2011 for the transfer of 7.28% of the shares in TEB Mali (TEB Holding A.Ş.), held by BNP Paribas Fortis Yatırımlar Holding A.Ş. to Çolakoğlu Group.