

**The Economy Bank N.V.**  
**Financial Statements**  
**For the year ended as of 31 December 2010**

## Table Of Contents

<b>Consolidated Income Statement</b> .....	<b>4</b>
<b>Consolidated Balance Sheet</b> .....	<b>5</b>
<b>Consolidated Statement of Changes in Equity</b> .....	<b>6</b>
<b>Consolidated Cash Flow Statement</b> .....	<b>7</b>
<b>Notes to the Consolidated Financial Statements</b> .....	<b>8</b>
1. General Information .....	8
2. Adoption of New and Revised Standards.....	8
3. Summary of Significant Accounting Policies .....	8
3.1. Basis of Presentation.....	8
3.2. Functional and Presentation Currency.....	9
3.3. Consolidation.....	9
3.4. Foreign Currency Translation .....	9
3.5. Property and Equipment.....	9
3.6. Intangible Assets .....	10
3.7. Impairment of Property & Equipment and Intangible Assets.....	10
3.8. Financial Instruments .....	10
3.9. Offsetting Financial Instruments .....	11
3.10. Recognition and Derecognition of Financial Instruments .....	12
3.11. Determination of Fair Value .....	12
3.12. Impairment of Financial Assets.....	12
3.13. General Banking Risks .....	13
3.14. Cash and Cash Equivalents .....	13
3.15. Leases.....	13
3.16. Employee Benefits.....	13
3.17. Interest Income and Expense Recognition .....	13
3.18. Fees and Commission Income Recognition.....	14
3.19. Net Trading Income .....	14
3.20. Taxation.....	14
3.21. Equity .....	14
3.22. Fiduciary Activities.....	14
3.23. Segment Reporting.....	14
3.24. Significant Accounting Judgements and Estimates .....	14
4. Segment Information.....	15
5. Income Statement.....	17
5.1. Net Interest Income .....	17
5.2. Net Fees and Commission Income.....	18
5.3. Net Trading Income .....	18
5.4. Net gains / (losses) on financial assets at fair value through profit or loss .....	18
5.5. Personnel Expenses.....	18
5.6. Administrative Expenses .....	19
5.7. Other Operating Expenses .....	19
5.8. Income Tax Expense.....	19
5.9. Earnings per Share.....	20
6. Balance Sheet.....	20
6.1. Cash and Balances with Central Banks.....	20
6.2. Securities Held-for-Trading.....	20
6.3. Short Term Placements to Banks .....	21
6.4. Financial Assets at Fair Value through Profit or Loss .....	21
6.5. Loans and Advances to Banks .....	21
6.6. Loans and Advances to Customers .....	21
6.7. Securities Available-for-Sale.....	21
6.8. Securities Held-to-Maturity .....	22
6.9. Property and Equipment.....	22
6.10. Intangible Assets .....	22
6.11. Derivative Financial Instruments.....	22
6.12. Other Assets and Prepayments.....	23
6.13. Due to Banks.....	23
6.14. Due to Customers.....	23
6.15. Taxation Liability.....	23
6.16. Other Liabilities and Accruals .....	24
6.17. Equity .....	24

7.	Risk Management .....	25
7.1.	Credit Risk .....	25
7.2.	Liquidity Risk .....	28
7.3.	Market Risk .....	29
7.4.	Hedging .....	32
7.5.	Derivative Financial Instruments .....	32
7.6.	Operational Risk .....	33
7.7.	Fair Values of Financial Assets and Liabilities .....	33
8.	Commitments and Contingent Liabilities .....	34
9.	Custody Services .....	34
10.	Related Party Transactions .....	35
11.	Solvency Ratio and Capital Risk Management .....	36
	<b>Company Income Statement .....</b>	<b>39</b>
	<b>Company Balance Sheet .....</b>	<b>40</b>
	<b>Company Statement of Changes in Equity .....</b>	<b>41</b>
	<b>Company Cash Flow Statement .....</b>	<b>42</b>
12.	Basis of Presentation .....	43
12.1.	Participations .....	43
12.2.	Taxation .....	43
13.	Income Statement .....	43
13.1.	Administrative Expenses .....	43
13.2.	Income Tax Expense .....	43
14.	Balance Sheet .....	44
14.1.	Equipment .....	44
14.2.	Participations .....	44
14.3.	Other Assets and Prepayments .....	44
14.4.	Due to customers .....	44
14.5.	Taxation Liability .....	44
14.6.	Other Liabilities and Accruals .....	44
14.7.	Retained Earnings .....	44
15.	Other Information .....	45
15.1.	The Articles of Association with respect to Profit Appropriation .....	45
15.2.	Proposed Profit Appropriation .....	45
15.3.	Approval of Financial Statements .....	45
15.4.	Events after Balance Sheet Date .....	45
15.5.	Auditors' Report .....	46

**The Economy Bank N.V.**  
**Consolidated Income Statement**

**For the year ended as of 31 December 2010**  
**(Thousands of Euros)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Interest income		24,874	25,336
Interest expense		(12,412)	(13,714)
<b>Net Interest income</b>	5.1	<b>12,462</b>	<b>11,622</b>
Fees and commission income		9,864	6,498
Fees and commission expense		(162)	(103)
<b>Net fees and commission income</b>	5.2	<b>9,702</b>	<b>6,395</b>
Net trading income	5.3	(870)	173
Net gains / (losses) on financial assets at fair value through profit or loss	5.4	179	634
<b>Total operating revenue</b>		<b>21,473</b>	<b>18,824</b>
Specific impairment losses	6.6	(1,857)	(765)
Portfolio level impairment losses	6.6	(1,106)	(746)
<b>Net operating revenue</b>		<b>18,510</b>	<b>17,313</b>
Personnel expenses	5.5	(5,347)	(5,121)
Administrative expenses	5.6	(2,043)	(1,979)
Other operating expenses	5.7	(184)	(532)
		<b>(7,574)</b>	<b>(7,632)</b>
Depreciation and amortization	6.9,6.10	(279)	(312)
<b>Operating expense</b>		<b>(7,853)</b>	<b>(7,944)</b>
<b>Operating profit before taxation</b>		<b>10,657</b>	<b>9,369</b>
Income tax expense	5.8	(2,687)	(2,375)
<b>Profit for the year attributable to the equity holders of the parent</b>		<b>7,970</b>	<b>6,994</b>
<b>Earnings per share (full Euros)</b>	5.9		
Basic earnings per share		132.82	116.57
Diluted earnings per share		132.82	116.57

**The Economy Bank N.V.**  
**Consolidated Balance Sheet**

**As at 31 December 2010**  
**After proposed profit appropriation**  
**(Thousands of Euros)**

	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
Cash and balances with central banks	6.1	19,400	69,692
Securities held-for-trading	6.2	8,079	5,277
Derivative financial instruments	6.11	2,207	316
Short term placements to banks	6.3	85,615	39,394
Financial assets at fair value through profit or loss	6.4	-	7,516
Loans and advances to banks	6.5	220,448	182,230
Loans and advances to customers	6.6	329,824	217,469
Securities available-for-sale	6.7	48,565	6,008
Securities held-to-maturity	6.8	8,474	9,725
Other assets and prepayments	6.12	1,676	548
Deferred tax assets	5.8	841	541
Property and equipment	6.9	3,520	3,624
Intangible assets	6.10	448	552
<b>Total Assets</b>		<b>729,097</b>	<b>542,892</b>
<b>Liabilities</b>			
Due to banks	6.13	193,158	71,639
Derivative financial instruments	6.11	627	2,813
Due to customers	6.14	440,227	381,600
Taxation liability	6.15	335	145
Other liabilities and accruals	6.16	2,271	1,855
<b>Total Liabilities</b>		<b>636,618</b>	<b>458,052</b>
<b>Equity</b>			
<b>Attributable to the equity holders of parent</b>			
Share capital	6.17	30,000	30,000
Retained earnings	6.17	62,733	54,763
Other Reserves	6.17	(254)	77
		<b>92,479</b>	<b>84,840</b>
Minority interest		-	-
<b>Total Equity</b>		<b>92,479</b>	<b>84,840</b>
<b>Total Equity and Liabilities</b>		<b>729,097</b>	<b>542,892</b>
Commitments		642	547
Contingent Liabilities		169,299	152,635
<b>Total Commitments and Contingent Liabilities</b>	8	<b>169,941</b>	<b>153,182</b>

**The Economy Bank N.V.**  
**Consolidated Statement of Changes in Equity**

**For the year ended as of 31 December 2010**  
**After proposed profit appropriation**  
**(Thousands of Euros)**

	<b>Paid-in capital</b>	<b>Retained earnings</b>	<b>Other Reserves</b>	<b>Total</b>	<b>Minority Interest</b>	<b>Total Equity</b>
<b>Balance at 1 January 2009</b>	30,000	47,769	(299)	77,470	-	77,470
Profit for the year	-	6,994	-	6,994	-	6,994
Net gains/(losses) on securities through other comprehensive income	-	-	376	376	-	376
Total Comprehensive Income	-	6,994	376	7,370	-	7,370
<b>Balance at 31 December 2009</b>	<b>30,000</b>	<b>54,763</b>	<b>77</b>	<b>84,840</b>	<b>-</b>	<b>84,840</b>
<b>Balance at 1 January 2010</b>	30,000	54,763	77	84,840	-	84,840
Profit for the year	-	7,970	-	7,970	-	7,970
Net gains/(losses) on securities through other comprehensive income	-	-	(331)	(331)	-	(331)
Total Comprehensive Income	-	7,970	(331)	7,639	-	7,639
<b>Balance at 31 December 2010</b>	<b>30,000</b>	<b>62,733</b>	<b>(254)</b>	<b>92,479</b>	<b>-</b>	<b>92,479</b>

**The Economy Bank N.V.**  
**Consolidated Cash Flow Statement**

**For the year ended as of 31 December 2010**  
**(Thousands of Euros)**

	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>			
Profit for the year		7,970	6,994
Depreciation and amortization	6.9,6.10	279	312
Change in securities held-for-trading		(2,802)	(3,785)
Change in derivative financial instruments		(4,077)	2,693
Change in short term placements to banks		7,176	9,195
Change in financial assets designated at fair value		7,516	22,888
Change in loans and advances to banks		(38,218)	(23,173)
Change in loans and advances to customers		(112,355)	(58,924)
Change in securities available for sale		(42,888)	7,366
Change in due to banks		81,733	42,533
Change in due to customers		58,627	(138,559)
Other changes in other assets and liabilities		(822)	(155)
<b>Total cash flows from operating activities</b>		<b>(37,861)</b>	<b>(132,615)</b>
<b>Cash flows from investment activities</b>			
Investment in property and equipment and intangible assets	6.9,6.10	(71)	(515)
Change in securities held-to-maturity		1,251	138
<b>Total cash flows from investment activities</b>		<b>1,180</b>	<b>(377)</b>
<b>Total cash flows from financing activities</b>		-	-
<b>Net cash flow</b>		<b>(36,681)</b>	<b>(132,992)</b>
Cash balance as at the beginning of the year		74,030	207,022
Cash balance as at the end of year		37,349	74,030
<b>Change in cash balance</b>		<b>(36,681)</b>	<b>(132,992)</b>
<b>Cash and cash equivalents</b>			
Cash and balances with central banks		18,006	61,121
Net cash position from banks on demand & overnight placements		19,343	12,909
<b>Total cash and cash equivalents</b>		<b>37,349</b>	<b>74,030</b>
<b>Cash flow from operating activities include:</b>			
Interest received		28,288	24,584
Interest paid		(12,739)	(13,677)
Income tax paid		(2,684)	(2,660)
Effect of exchange rate changes on cash and cash equivalents		439	(825)

## Notes to the Consolidated Financial Statements

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### 1. General Information

The Economy Bank N.V. (TEB NV, bank) is a public limited liability company, incorporated on 17 November 1998 in Amsterdam, The Netherlands. The main activities of the bank are trade and commodity finance, private banking and retail deposits activities. The bank employs 59 people at 2010 year-end. The trade registry office of The Economy Bank N.V. is located in Amsterdam. The registered office of the bank is at Professor Keesomlaan 5, 1183 DJ, Amstelveen, the Netherlands. The bank has a representative office in Istanbul, Turkey.

The bank is wholly owned by Türk Ekonomi Bankası A.Ş. (TEB AŞ), incorporated in Turkey. TEB AŞ is a listed company in the Istanbul and London (GDR) Stock Exchanges. The financial information of the bank is fully consolidated in the financial statements of TEB AŞ. TEB AŞ is a participation of TEB Mali Yatırımlar A.Ş. (TEB Financial Investments), the holding company of the TEB Group and the financial information of the TEB AŞ is fully consolidated in the financial statements of TEB Financial Investments ( name of the company is changed as TEB Holding A.Ş. as of 30.03.2011) .

In 2005, BNP Paribas acquired 50% of the shares of TEB Financial Investments. In 2011, direct and indirect shares of BNP Paribas have increased and TEB entity will be consolidated on a 67% proportional basis to the financial statements of BNP Paribas.

The financial statements were approved by Supervisory Board of the Bank and authorized for issue on 15 April 2011.

### 2. Adoption of New and Revised Standards

*New and revised IFRSs affecting amounts reported in the current year*

No new and revised IFRSs have been applied in the current period that have had a material effect on the amounts in these financial statements including IFRIC 17, 18 and the amendments to IAS 1, IAS 7, IAS 27, IAS 28, IAS 39, IFRS 1, IFRS 2, IFRS 3, IFRS 5.

*New and revised IFRSs in issue but not yet effective*

TEB NV has not applied the following new and revised IFRSs that have been issued but are not yet effective: amendments to IFRS 1, amendments to IFRS 7, IFRS 9, IAS 24, amendments to IAS 32, IFRIC 19 and amendments to IFRIC 14.

The directors anticipate that IFRS 9 will be adopted in the financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on the amounts reported in respect of the Bank's financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors do not expect the adoption of the other new or amended standards and interpretations to have a significant effect on the financial statements.

### 3. Summary of Significant Accounting Policies

The accounting policies applied in the preparation of these consolidated financial statements as set below have been consistently applied to all the periods presented unless otherwise stated.

#### 3.1. Basis of Presentation

The consolidated financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in accordance with the legal requirements for the annual accounts of banks contained in Part 9, Book 2 of the Netherlands Civil Code. The consolidated financial statements have been prepared under the historical cost convention, except for trading securities, Financial assets at fair value through profit or loss, securities available-for-sale and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Euros, and all values are rounded to the nearest thousand Euro unless otherwise is stated.

### 3.2. Functional and Presentation Currency

Items included in the financial statements of each of the bank's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euros, which is the bank's functional and presentation currency.

### 3.3. Consolidation

The consolidated financial statements include the accounts of TEB NV and its investments in Kronenburg Vastgoed B.V. (KVBV) and Stichting Effecten Dienstverlening (Stichting), which the bank exercises control over. KVBV is a 100% subsidiary of TEB NV and acts as the real estate company founded with the purpose of the ownership of property used by the bank. Stichting is the foundation acting as the custody services provider founded to serve exclusively to the bank's customers and 100% of its equity is provided by the bank.

Subsidiaries, which are those companies and other entities in which TEB NV, directly or indirectly, has power to control the financial and operating policies and owns more than 50% of voting rights of a company's share capital, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the bank and are no longer consolidated from the date that control ceases.

Intercompany balances and transactions, including the intercompany gains and losses on transactions, realized or unrealized, between the bank and its' subsidiaries are eliminated.

### 3.4. Foreign Currency Translation

Foreign currency transactions are recorded at the rate of exchange prevailing on the date of transaction.

Assets and liabilities denominated in foreign currencies are translated into Euro, at the spot exchange rates prevailing at balance sheet date. Impact of foreign currency revaluation is presented in the income statement under net trading income.

### 3.5. Property and Equipment

The bank's property and equipment is stated at cost less accumulated depreciation and accumulated impairment value. Historical cost includes expenditures that are directly attributable.

The premises built for own use of the bank classified under the property and equipment line of balance sheet was stated at cost in 2004 and has been tested for impairment at subsequent periods. The registered ownership of the premises belongs to KVBV, which is a 100% subsidiary of TEB NV and consolidated to the financial statements of the bank.

Subsequent costs are included in the asset's amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will be available to the bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual value, at the end of their useful life, if any, using the following depreciation rates:

Building	2.50%
Furniture and Fixtures	20.00%
Office Equipment	33.33%
Motor Vehicles	20.00%
IT Hardware	33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets classified under property and equipment are derecognized upon disposal or when no future economic benefits are expected from the use of the asset. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These gains and losses are included in the income statement during the reporting period which the asset is derecognized.

### 3.6. Intangible Assets

Acquired computer software and their licenses are booked as intangible assets including both the costs incurred to acquire and to bring such software into use. These intangible assets have a finite useful life and their costs are amortized on the basis of the expected useful life of three years.

TEB NV periodically reassesses the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment has been required as a result of these reassessments.

Costs associated with general development or maintenance of computer software programs are recognized as expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the bank, and that are estimated to generate economic benefits exceeding the incurred costs beyond a period longer than one year are recognized as intangible assets.

Computer software development costs recognized as intangible assets are amortized using the straight-line method over their useful lives (not exceeding three years) with the estimation that they have finite useful lives.

Following the initial recognition, acquired and developed software costs are carried at cost less accumulated amortization and accumulated impairment costs.

### 3.7. Impairment of Property & Equipment and Intangible Assets

Property & equipment and intangible assets are reviewed for impairment at least at each reporting period or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the costs to sell and value in use.

### 3.8. Financial Instruments

The bank classifies its financial instruments in the following categories:

**a. Securities held for trading:**

All securities classified as held-for-trading are included in this category. Trading securities are either acquired for generating a profit from short term fluctuations in price or are included in a portfolio in which a pattern of short term profit taking exists. Gains or losses generated from financial assets held-for-trading are presented under net trading income line of the income statement.

**b. Financial assets at fair value through profit or loss:**

Financial assets which carry similar nature with loans and advances to banks but either do not carry originated transaction nature or decided by the management of the bank that such assets have to be evaluated at their fair value due to the risk management and investment strategy reasons are classified under this group of financial instruments. Financial assets at fair value through profit or loss are recorded at the balance sheet at fair value. Interest earned on such assets are recorded in interest income and changes in fair value are recorded in net gains / (losses) on financial assets at fair value through profit or loss in the income statement. Forfeiting assets which are classified under loans and advances to banks are presented at fair value and the fair value adjustments on such assets are presented in the income statement at net trading income line.

**c. Short term placements to banks, loans and advances to banks and customers:**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides funds 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. Interest income and gains and losses with respect to the amortization of the financial assets as well as derecognition and impairment costs are recognized in the income statement.

**d. securities available-for-sale:**

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale investments are recognized at fair value plus transaction costs. Gains and losses arising from changes in the fair value of available-for-sale investments are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognized in equity is recognized in profit or loss. However interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in income statement.

**e. securities held-to-maturity**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. If the bank had to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

Held-to-maturity investments are 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 the income statement when the investments are derecognized or impaired, as well as through the amortization process. Interest earned whilst holding held-to-maturity investments is reported as interest income in the income statement.

Held-to-maturity investments which are transferred from available-for-sale portfolio are measured at amortized cost using the effective interest method, less any impairment in value starting from the date of the transfer. Such transfers are made at the prevailing market value at the date of the transfer. Fair value gains and losses classified under the other reserves of the equity and accrued until the date of the transfer attributable to the assets transferred from the available-for-sale portfolio to the held-to-maturity portfolio are amortized until the maturity date of such assets.

**f. Due to banks and customers:**

Due to banks and customers are financial liabilities with determinable payments and fixed maturities where the substance of the contractual arrangement results in the bank to have an obligation either to deliver cash or another fixed and predetermined financial instrument.

Such liabilities are carried at amortized cost using the effective interest method. Interest expense with respect to the amortization of such financial liabilities as well as costs occurring during their derecognition and impairment are recognized as interest expense in the income statement.

**g. Derivative financial instruments:**

Derivative financial instruments consisting of foreign currency forward contracts and currency swaps are initially recognized at cost, with subsequent measurement to their fair value at each balance sheet date. Fair values are obtained from quoted market prices in active markets. All derivatives are separately evaluated and carried as assets when each transaction's fair value is positive and as liabilities when each transaction's fair value is negative. Changes in the fair value are included in the income statement, under net trading income. No hedge accounting has been applied.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the bank. 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.

### **3.9. Offsetting Financial Instruments**

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.

### **3.10. Recognition and Derecognition of Financial Instruments**

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

Derecognition of financial assets and financial liabilities in the balance sheet are realized as follows:

#### **Financial assets:**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where;

- a) the rights to receive cash flows from the asset have expired or
- b) while retaining the right to receive cash flows from the asset the bank has also assumed an obligation to pay them in full without material delay to a third party via a pass-through agreement or
- c) the bank has either transferred substantially all risks and rewards of the asset, or the bank has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred the control of the assets.

In cases where the bank has transferred its rights to receive cash flows from an asset or assigned these rights through a pass-through agreement but has neither transferred nor retained substantially all risks and rewards of an asset, the asset is derecognized to the extent which the bank has remaining involvement.

#### **Financial liabilities:**

A financial liability is derecognized when the obligations under the liability are discharged or cancelled or expired.

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 the income statement.

### **3.11. Determination of Fair Value**

Fair value of financial instruments are determined through the following three level methodology:

Level 1: Assets which are traded in active markets are determined either through market quotation or dealer price quotations without deduction of transaction costs.

Level 2: In case that direct market quotation is not available, fair value of such assets is determined through methodologies implementing directly or indirectly observable market parameters.

Level 3: Where neither level 1 nor level 2 methodologies are applicable, fair value of such assets is determined by internal model based methodologies based on unobservable parameters.

### **3.12. Impairment of Financial Assets**

The bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets are deemed to be impaired after its initial recognition if there is objective evidence of impairment indicated with several events that may cause an imminent loss or which may have impact to the future cash flows of the financial asset or group of financial assets.

If there is objective evidence that a significant impairment loss on loans and receivables carried at amortized cost has been incurred individually or collectively with similar financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of a provision account. The amount of the loss is recognized in the income statement.

The bank also assesses individually if there is evidence of impairment for held-to-maturity and available for sale financial assets. If there is objective evidence to indicate impairment in held-to-maturity assets, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows. The carrying amount of the held-to-maturity assets is reduced and the amount of the loss is recognized in the income statement. When there is objective evidence to indicate impairment in

available for sale financial assets, the difference between acquisition cost and the fair value reduced by accumulated impairment losses is recognized in the income statement and any gain temporarily recorded directly in equity is reversed.

Separate from specific impairment analysis, the Bank assesses impairment on a portfolio basis for the financial assets grouped on the basis of similar credit risk characteristics which historical analysis evidences a need for such a practice. While grouping the assets which will be subject to the portfolio level impairment analysis, the Bank ensures that individual assets are allocated to groups of assets that share similar credit risk characteristics.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be evidenced objectively to an event incurred after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In case that recovery of an impaired financial asset or group of financial assets is assessed to be not possible, charges booked to the separate impairment account are written off against the original carrying value of the financial asset.

### **3.13. General Banking Risks**

The bank does not set any amount aside for general banking risks such as unidentified future losses or other unforeseeable risks. Local regulations and legislations in the operating country do not require the banks to set aside amounts for general banking risks.

### **3.14. Cash and Cash Equivalents**

For the purposes of cash flow statement, cash and cash equivalents are defined as those amounts included in the balance sheet under the caption 'Cash and balances with central banks' (excluding minimum reserve which is kept at De Nederlandsche Bank N.V. (DNB) (Dutch Central Bank)) and 'Short term placements to banks' and "Due to banks" which are due on demand including overnight placements and borrowings from banks. The cash flow statement is presented in line with the indirect method. No cash flows from financing activities are presented at the cash flow statement as the Bank has no long term funding to finance its activities.

### **3.15. Leases**

The lease contracts which the bank entered into as a lessee are of operating lease nature. An operating lease is where the bank does not acquire substantially the risks and benefits of the underlying asset. The operating lease obligations and payments are not recognized in the balance sheet but charged to income statement on a straight-line basis over the period of the lease contract.

When an operating lease is terminated before the lease period has expired, any obligation which has to be settled to the lessor is recognized as expense in the income statement at the period in which the termination takes place.

The bank has not entered into a lease contract as lessor.

### **3.16. Employee Benefits**

Pension obligations:

The pension plan of the bank is based on a defined contribution as a percentage of the annual salary depending on the age of the insured, whereby the terms and conditions of the plan are based on each individual's requirements, under a fixed scheme, also allowing the individual staff members to contribute for their own account. The bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefits expense when employees have rendered services entitling them to the contributions.

### **3.17. Interest Income and Expense Recognition**

All interest income and expense items, except the realized and unrealized interest on the marketable securities classified under trading portfolio, are recognized at amortized cost based on the effective interest rate method. All income and expense items are recognized in the financial reporting period which they relate.

### **3.18. Fees and Commission Income Recognition**

Fees and commissions earned through services or products provided over a certain period of time are accrued over that period. Fees and commissions on loans are recognized as adjustment to the effective interest rate on the loan.

Fees and commissions which can not be associated with a product or service provided over a certain period of time such as fund transfer fees and other one time banking transaction services are recorded as income when realized.

### **3.19. Net Trading Income**

Net trading income consists of the results arising from any trading activity including related interest income and expense and gains and losses from changes in fair value.

### **3.20. Taxation**

Effective tax rate is determined with consideration of all material timing differences between the profit before tax per commercial accounts and the fiscal profit described per the tax legislation and calculated over the current taxation rate of 25.5% in the Netherlands.

Any temporary difference between the IFRS Financial statements and the valuation for taxation purposes is subject to deferred taxation with the current taxation rate of 25.5 %.

### **3.21. Equity**

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the bank's shareholders. Dividends for the year that are declared after the balance sheet date are disclosed in events after balance sheet date note, if any.

### **3.22. Fiduciary Activities**

The bank commonly acts in fiduciary capacities that result in the holding or placing of assets on behalf of its clients where the clients accept full risk with respect to exchange control, transfer limitations and/or possible insolvency risk of a debtor as well as any consequences resulting from legal restrictions causing restructuring of debts in the country where the debtor institution is operating. In such transactions, the clients explicitly indemnify the bank with respect to all losses and liabilities related to the use of third parties, including but not limited to the parties with which the investments are done.

The assets and liabilities which carry a fiduciary nature are derecognized from the balance sheet of the bank, except the related interest income and expense accruals, due to the reason that rights and obligations with respect to these assets and liabilities do not belong to the bank. As part of its fiduciary capacity, the bank has legally enforceable right to transfer all related risks of fiduciary transactions to the client where necessary.

### **3.23. Segment Reporting**

A business segment is a distinguishable group of assets and operations engaged in providing products or services that are subject to risks and return which 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 environment.

### **3.24. Significant Accounting Judgements and Estimates**

The preparation of financial statements in conformity with IFRS requires the use of judgement and estimates that affect the recognition and valuation of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, the actual results may differ ultimately from these estimates. The key areas requiring an application of judgement and estimation include the assessment of risk and rewards and other relevant criteria when determining whether or not to recognize or derecognize a financial asset or financial liability, the useful life and depreciation periods of tangible fixed assets and intangible assets, the determination of the fair value of certain financial assets and liabilities, the amount and timing of future cash flows on possible impaired financial assets and other provisions.

#### 4. Segment Information

The primary segment reporting format is determined to be business segments as the bank's risks and rates of return are affected by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. All activities of the bank are based in the Netherlands from one location; therefore there is no secondary geographical segmentation.

Trade finance and corporate banking segment (TFCB) is where trade and commodity finance activities, handling of loans and credit facilities together with other corporate banking services are provided including related correspondent banking relationships.

Private banking segment (PB) includes services provided to private investors such as depositing funds, investing and trading in government bonds, treasury bills and shares.

Treasury segment (Treasury) consists of central treasury functions including the management of bank's liquidity and currency position within acceptable levels in compliance with the regulations in the operating country.

Although the Bank has started to collect retail deposits in 2007, retail deposit collection business is not considered as a separate business segment by the management of the Bank but as a source of funding. Funds from retail deposits are distributed to the profit generating business segments according to the corresponding credit risk balances.

Segment disclosures include items either directly attributable to a segment or those that can be reallocated on a reasonable basis.

Income items under operating income of segment information disclosure are provided on the basis of contractual rights from third parties with relation to the related business activities defined under trade finance and corporate banking, private banking and treasury segments or in accordance with the participation of separate segments in the overall process of a product provided. Interest income disclosed under segment information includes both the interest income earned from third parties by a specific segment and also the interest income earned from other segments.

Costs of contractual liabilities to third parties have been allocated to business segments in accordance with the average risk balance carried by related business segments through out the year. Interest expense disclosed under segment information includes both the interest expense to third parties by a specific segment and also the interest expense to other segments.

Personnel expenses, administrative expenses and depreciation and amortization are allocated to the business segments based on service relations within the organization of the bank and their respective utility consumptions.

Segment assets and liabilities are disclosed on the basis of contractual rights and obligations to third parties as of the balance sheet date. Retail deposits amounting Euro 198,518 (2009: Euro 212,294) are allocated to the business segments according to the corresponding nominal funded credit risk balance of each segment. Fixed assets are allocated to the business segments based on service relations within the organization of the bank and their respective utility consumptions. Unallocated assets and liabilities of the bank consists of deferred tax assets amounting to Euro 841 (2009: 541), other assets and prepayments amounting Euro 1,676 (2009: Euro 548), taxation liability amounting Euro 335 (2009: Euro 145), and other liabilities and accruals amounting Euro 2,271 (2009: Euro 1,855).

Average full time equivalent number of employees in 2010 was 60 (2009: 64). Details of the headcount as of the balance sheet date are as follows:

	<u>2010</u>	<u>2009</u>
Trade Finance and Corporate Banking	16	18
Private Banking	2	2
Retail Deposit Collection	2	3
Treasury	3	3
Management	2	2
Operations	11	11
Financial Control and Accounting	4	4
Compliance and Operational Risk	2	2
Credits and Risk Management	5	5
Central Registry	2	2
Information Technologies	5	6
Administrative Services	5	5
	<u>59</u>	<u>63</u>

As of 31 December 2010

<b>Income Statement</b>	<u>TFCB</u>	<u>PB</u>	<u>Treasury</u>	<u>Total</u>
Interest income	17,511	623	6,740	<b>24,874</b>
Interest expense	(7,174)	(308)	(4,930)	<b>(12,412)</b>
<b>Net interest income</b>	<b>10,337</b>	<b>315</b>	<b>1,810</b>	<b>12,462</b>
<b>Net fees and commission income</b>	<b>9,059</b>	<b>643</b>	<b>-</b>	<b>9,702</b>
Net trading income	-	-	(870)	<b>(870)</b>
Net gains / (losses) on financial assets at fair value through profit or loss	179	-	-	<b>179</b>
<b>Total operating revenue</b>	<b>19,575</b>	<b>958</b>	<b>940</b>	<b>21,473</b>
Specific impairment losses	(1,857)	-	-	<b>(1,857)</b>
Portfolio level impairment losses	(1,106)	-	-	<b>(1,106)</b>
<b>Net operating revenue</b>	<b>16,612</b>	<b>958</b>	<b>940</b>	<b>18,510</b>
Personnel expenses	(4,180)	(522)	(645)	<b>(5,347)</b>
Administrative and other operating expenses	(1,694)	(250)	(283)	<b>(2,227)</b>
	(5,874)	(772)	(928)	<b>(7,574)</b>
Depreciation and amortization	(213)	(31)	(35)	<b>(279)</b>
<b>Operating expense</b>	<b>(6,087)</b>	<b>(803)</b>	<b>(963)</b>	<b>(7,853)</b>
<b>Operating profit before taxation</b>	<b>10,525</b>	<b>155</b>	<b>(23)</b>	<b>10,657</b>
<b>Segment Assets and Liabilities as of 31 December 2010</b>				
Assets	539,950	15,999	170,631	<b>726,580</b>
Liabilities	463,517	123,130	47,365	<b>634,012</b>

As of 31 December 2009

<b>Income Statement</b>	<b>TFCB</b>	<b>PB</b>	<b>Treasury</b>	<b>Total</b>
Interest income	20,485	650	4,201	<b>25,336</b>
Interest expense	(10,074)	(358)	(3,282)	<b>(13,714)</b>
<b>Net Interest income</b>	<b>10,411</b>	<b>292</b>	<b>919</b>	<b>11,622</b>
<b>Net fees and commission income</b>	<b>6,208</b>	<b>187</b>	<b>-</b>	<b>6,395</b>
Net trading income	-	-	173	<b>173</b>
Net gains / (losses) on financial assets at fair value through profit or loss	634	-	-	<b>634</b>
<b>Total operating revenue</b>	<b>17,253</b>	<b>479</b>	<b>1,092</b>	<b>18,824</b>
Specific impairment losses	(765)	-	-	<b>(765)</b>
Portfolio level impairment losses	(746)	-	-	<b>(746)</b>
<b>Net operating revenue</b>	<b>15,742</b>	<b>479</b>	<b>1,092</b>	<b>17,313</b>
Personnel expenses	(4,076)	(485)	(560)	<b>(5,121)</b>
Administrative and other operating expenses	(1,915)	(281)	(315)	<b>(2,511)</b>
	<b>(5,991)</b>	<b>(766)</b>	<b>(875)</b>	<b>(7,632)</b>
Depreciation and amortization	(238)	(35)	(39)	<b>(312)</b>
<b>Operating expense</b>	<b>(6,229)</b>	<b>(801)</b>	<b>(914)</b>	<b>(7,944)</b>
<b>Operating profit before taxation</b>	<b>9,513</b>	<b>(322)</b>	<b>178</b>	<b>9,369</b>
<b>Segment Assets and Liabilities as of 31 December 2009</b>				
Assets	509,271	6,901	21,455	<b>537,627</b>
Liabilities	346,692	98,144	11,216	<b>456,052</b>

## 5. Income Statement

### 5.1. Net Interest Income

	<b>2010</b>	<b>2009</b>
<b>Interest Income</b>		
Balances with central banks and short term placements to banks	543	1,345
Securities available-for-sale	604	692
Securities held-to-maturity	530	613
Loans and advances to banks	7,382	9,857
Loans and advances to customers	15,815	12,829
	<b>24,874</b>	<b>25,336</b>
<b>Interest Expense</b>		
Due to banks	(2,440)	(1,864)
Due to customers	(9,972)	(11,850)
	<b>(12,412)</b>	<b>(13,714)</b>
	<b>12,462</b>	<b>11,622</b>

In 2009, interest income and interest expense from placements and deposits with fiduciary nature amounting Euro 926 were not reported in the related lines of the income statement as such underlying assets and liabilities are derecognized from the balance sheet. Fee income earned from fiduciary activities was classified under net fees and commission income. In 2010, no balance sheet items nor income or expense of such nature exist.

## 5.2. Net Fees and Commission Income

	<u>2010</u>	<u>2009</u>
<b>Fees and commission income</b>		
Cash loan fees and commissions	2,988	1,661
Non-cash loan fees and commissions	5,375	3,847
Private banking fees and commissions	643	162
Fund transfer commissions	737	737
Other banking service commissions	121	91
	<u>9,864</u>	<u>6,498</u>
<b>Fees and commissions expense</b>		
Brokerage fees paid	(162)	(99)
Other fees paid	-	(4)
	<u>(162)</u>	<u>(103)</u>
	<u>9,702</u>	<u>6,395</u>

## 5.3. Net Trading Income

	<u>2010</u>	<u>2009</u>
Securities trading income/(loss)	876	880
Currency swap costs	(1,910)	(812)
Foreign exchange gain/(loss)	164	107
	<u>(870)</u>	<u>173</u>

Spot exchange rates against Euro (functional and presentation currency) for the major foreign currencies which are used in the translation of the asset and liabilities as of 31 December 2010 are 1.3354 and 2.0682 for USD and TRY, respectively (2009: 1.4417 and 2.1600 for USD and TRY, respectively).

## 5.4. Net gains / (losses) on financial assets at fair value through profit or loss

This line consists of the gains and losses arising from buying and selling, and changes in the fair value of the assets designated upon initial recognition as held at fair value through profit or loss and amounts to Euro 179 gain (2009: Euro 634 gain).

## 5.5. Personnel Expenses

	<u>2010</u>	<u>2009</u>
Salaries and bonuses	4,730	4,545
Pension expenses	147	132
Social security contributions	337	337
Others	133	107
	<u>5,347</u>	<u>5,121</u>

## 5.6. Administrative Expenses

	<u>2010</u>	<u>2009</u>
Maintenance costs and administrative expenses	1,581	1,511
Communication expenses	425	430
Rental expenses	37	38
	<u>2,043</u>	<u>1,979</u>

Administrative expenses include operating lease payments which are recognized as expense in the income statement amounting Euro 49 in 2010 (2009: Euro 40). As of 31 December 2010, the remaining liability under the operating lease agreements amounts to Euro 63 with a maximum remaining term of 3 years. (2009: Euro 94 with a maximum remaining term of 4 years).

Among administrative expenses, financial audit expenses and expenses related to other services provided by Deloitte Accountants B.V. amount to Euro 89 and Euro 9, respectively. (2009: Euro 79 and Euro 31, respectively). Administrative expenses also include audit expenses for services provided by Deloitte Turkey amounting to Euro 72. (2009: Euro 59).

## 5.7. Other Operating Expenses

	<u>2010</u>	<u>2009</u>
Operational risks provision	130	-
Contribution to Guarantee Scheme Provision	50	519
Other	4	13
	<u>184</u>	<u>532</u>

Operational risks provision includes the provisions booked against potential operational losses identified in the reporting period.

## 5.8. Income Tax Expense

The taxation charge for the years ended 31 December comprises the following items:

	<u>2010</u>	<u>2009</u>
Current corporation and income taxes	2,875	2,601
Deferred tax income	(188)	(226)
	<u>2,687</u>	<u>2,375</u>

Deferred tax assets at 31 December are attributable to the items in the table below:

	<u>Applicable Tax Rate</u>	<u>2010</u>			<u>2009</u>		
		<u>Base</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Base</u>	<u>Assets</u>	<u>Liabilities</u>
Portfolio level impairment losses	25.5%	3,187	812	-	2,081	531	-
Temporary difference on tangible fixed assets	25.5%	114	29	-	39	10	-
		<u>841</u>	<u>-</u>	<u>-</u>	<u>541</u>	<u>-</u>	<u>-</u>

Movement in deferred tax assets is as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax assets at the beginning of the year	541	340
Deferred taxes on taxable temporary differences	300	201
Deferred tax assets at the end of the year	<u>841</u>	<u>541</u>

The effective tax rate of the bank is 25.5% (2009: 25.5%), which does not materially differ from the nominal tax rate.

## 5.9. Earnings per Share

Basic earnings per share for the year of 2010 amounting Euro 132.82 (2009: Euro 116.57) is calculated by dividing the profit for the year attributable to the ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. The bank does not have any treasury shares.

Diluted earnings per share is equal to the basic earnings per share as there is no potentially dilutive ordinary shares of the bank such as convertible preference shares, convertible bonds or share options.

	<u>2010</u>	<u>2009</u>
Profit for the attributable to equity holders of the parent	7,970	6,994
<i>In full numbers;</i>		
Weighted average number of ordinary shares used in calculation of basic earnings per share	60,000	60,000
Dilutive and potentially dilutive ordinary shares	-	-
Weighted average number of ordinary shares used in calculation of diluted earnings per share	60,000	60,000
<i>In full Euros;</i>		
Basic earnings per share	132.82	116.57
Diluted earnings per share	132.82	116.57

## 6. Balance Sheet

### 6.1. Cash and Balances with Central Banks

Cash and balances with central banks include the cash in hand and reserves and short term placements with DNB.

	<u>2010</u>	<u>2009</u>
Cash in hand	-	2
Reserves at Central Bank, minimum reserve requirement	1,400	8,571
Reserves at Central Bank, accrual and the excess amount of minimum reserve requirement	-	6
Short term placements with Central Bank	18,006	61,113
	<b>19,406</b>	<b>69,692</b>

Reconciliation of cash and cash equivalents for the purpose of the cash flow statement is as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents, excluding the minimum reserve requirement	18,006	61,121
Short term placements to banks with overnight maturity(6.3)	85,615	39,394
Due to banks with overnight maturity (6.13)	(66,272)	(26,485)
	<b>37,349</b>	<b>74,030</b>

### 6.2. Securities Held-for-Trading

Trading securities portfolio of the bank is composed of public debt securities amounting Euro 8,079 and Euro 5,277 as of 31 December 2010 and 2009, respectively.

### 6.3. Short Term Placements to Banks

The item includes cash in banks and all short term placements to banks. The balance includes short term placements amounting Euro 85,615 and Euro 39,394 as of 31 December 2010 and 2009, respectively. Cash in banks includes the bank accounts of consolidated subsidiaries amounting Euro 9 as of both 31 December 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Cash in banks	4,113	5,137
Overnight placements	81,502	34,257
	<b>85,615</b>	<b>39,394</b>

### 6.4. Financial Assets at Fair Value through Profit or Loss

The balance includes the financial assets which carry similar nature with loans and advances to banks but is being monitored at a separate forfeiting portfolio due to risk management and investment strategies of the bank. As of 31 December 2010, cumulative losses from fair value changes of the forfeiting portfolio amounts to Euro 64. (2009: cumulative gain of Euro 64).

### 6.5. Loans and Advances to Banks

The balance includes loans and advances to banks, discounting of letters of credits and bank avalized obligation drafts amounting Euro 220,448 and Euro 182,230 as of 31 December 2010 and 2009, respectively.

### 6.6. Loans and Advances to Customers

These include all loans and advances, excluding the loans and advances given to banks. The balance includes the total impairment provision for loans and advances to customers amounting Euro 7,704 (2009: 4,741), of which Euro 4,516 represents the provision for individually assessed impaired assets and the remaining Euro 3,188 represents the portfolio level impairment losses.

The analysis for past due and individually impaired loans and advances to customers are as follows:

	<u>Up to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Over 12 months</u>
Past due but not impaired	5,552	-	-	-
Individually impaired	4,889	-	-	2,604

Individual impairment is calculated for loans and advances to customers when there is objective evidence of impairment indicated with several factors that may cause a loss such as the solvability of the credit risk party, quality and value of collaterals and market conditions.

Against the individually impaired loans and advances to customers, the Bank holds real estate mortgage collaterals whose forced sale value amounts to Euro 3,065 (2009: 644).

### 6.7. Securities Available-for-Sale

As of 31 December 2010 available-for-sale portfolio is composed of securities issued by credit institutions amounting Euro 3,014 (2009: Euro 3,119) and securities issued by governments amounting to Euro 45,551 (2009: Euro 2,889). Movement in the Available-for-sale portfolio is as follows:

	<u>2010</u>	<u>2009</u>
Balance sheet as at 1 January	6,008	12,998
Purchases	48,921	15,735
Foreign exchange and valuation differences	199	(1,283)
Redemptions	(6,563)	(21,442)
Balance sheet as at 31 December	<b>48,565</b>	<b>6,008</b>

## 6.8. Securities Held-to-Maturity

Investment securities portfolio of the bank is composed of public debt securities amounting Euro 8,474 and Euro 9,725 as of 31 December 2010 and 2009 respectively. Movement of the investment portfolio is as follows:

	<u>2010</u>	<u>2009</u>
Balance sheet as at 1 January	9,725	9,863
Purchases	-	-
Foreign exchange and valuation differences	393	(138)
Redemptions	(1,644)	-
Balance sheet as at 31 December	<u>8,474</u>	<u>9,725</u>

## 6.9. Property and Equipment

The breakdown of property and equipment as at 31 December 2010 and 2009 is as follows:

	<u>2010</u>			<u>2009</u>		
	<u>Property</u>	<u>Equipment</u>	<u>Total</u>	<u>Property</u>	<u>Equipment</u>	<u>Total</u>
Balance sheet value as at 1 January	3,480	144	3,623	3,581	129	3,710
Additions	-	49	49	-	112	112
Disposals	-	(6)	(6)	-	-	-
Depreciation	(70)	(76)	(146)	(101)	(97)	(198)
Balance sheet value as at 31 December	<u>3,409</u>	<u>111</u>	<u>3,520</u>	<u>3,480</u>	<u>144</u>	<u>3,624</u>
Cost of property and equipment	4,059	1,329	5,389	4,059	1,287	5,346
Accumulated depreciation	(650)	(1,218)	(1,868)	(579)	(1,143)	(1,722)

## 6.10. Intangible Assets

Intangible assets consist of acquired software. The breakdown of Intangible assets as at 31 December 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Balance sheet value as at 1 January	552	263
Additions	24	403
Disposals	-	-
Amortization	(128)	(114)
Balance sheet value as at 31 December	<u>448</u>	<u>552</u>
Cost of intangible assets	1,321	1,297
Accumulated amortization	(873)	(745)

## 6.11. Derivative Financial Instruments

In the ordinary course of business, the bank 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 and swaps.

The notional amounts of long positions in currency forwards and currency swaps are as follows:

As of 31 December 2010

	Notional Amount	Up to 1 month	1 to 3 Months	3 to 6 Months	More than 1 Year	Fair Values	
						Assets	Liabilities
Forward contracts	24,344	15,037	5,017	4,290	-	223	304
Currency swaps	213,836	213,836	-	-	-	1,829	175
Interest rate swaps	11,500	-	-	-	11,500	155	148
	<b>249,680</b>	<b>228,873</b>	<b>5,017</b>	<b>4,290</b>	<b>11,500</b>	<b>2,207</b>	<b>627</b>

As of 31 December 2009

	Notional Amount	Up to 1 month	1 to 3 Months	3 to 6 Months	More than 1 Year	Fair Values	
						Assets	Liabilities
Forward contracts	17,572	6,686	10,885	-	-	74	155
Currency swaps	140,733	126,033	13,000	1,700	-	203	2,629
Interest rate swaps	5,750	-	-	-	5,750	39	29
	<b>164,055</b>	<b>132,720</b>	<b>23,885</b>	<b>1,700</b>	<b>5,750</b>	<b>316</b>	<b>2,813</b>

### 6.12. Other Assets and Prepayments

This item comprises advances to suppliers, employees and prepaid expenses. As of 31 December 2010 it includes an advance payment to DNB amounting to Euro 1,920 netted off with provisions reflecting the expected loss of Euro 450 as the contribution to guarantee scheme relating to the bankruptcy of DSB Bank.

### 6.13. Due to Banks

This includes all the payables to banks amounting Euro 193,158 as of 31 December 2010 (2009: Euro 71,639). There are no loans from banks with subordinated nature in 2010 and in 2009.

As of 31 December 2010, average funding cost for TRY is 6.41 % (2009: 6.23%) and 1.04% (2009: 1.20%) for other currencies.

	2010	2009
Bank accounts	31,731	8,906
Overnight borrowings	34,541	17,579
Due to banks maturing within one month	106,319	45,147
Due to banks maturing within one year	20,567	7
	<b>193,158</b>	<b>71,639</b>

### 6.14. Due to Customers

Due to customers includes funds entrusted to the bank by customers such as current accounts amounting to Euro 218,904 and time deposits of Euro 221,323 as of 31 December 2010 (2009: Euro 192,223 and Euro 189,377 respectively). The funds entrusted by private persons and corporate amounts to Euro 301,571 and Euro 138,655 as of 31 December 2010 (2009: Euro 300,587 and Euro 81,013).

As of 31 December 2010 average funding cost for TRY is 6.66 % (2009: 6.26%) and 2.10% for other currencies (2009: 2.51%)

In connection with the risk assets and contingent transactions, amongst due to customers, Euro 34,341 and Euro 15,122 have been allocated as pledge to the bank against the assets and contingent items as of 31 December 2010, respectively (2009: Euro 18,011 and Euro 8,259, respectively).

### 6.15. Taxation Liability

This item includes corporate income taxes payable. After prepaid taxes are deducted, the net taxation liability amounts to Euro 335 as of 31 December 2010 (2009: Euro 145).

## 6.16. Other Liabilities and Accruals

This item includes accrued expenses whose actual payment occurs in a different period as well as payables to various suppliers and payables to tax authorities other than corporate income tax.

## 6.17. Equity

### *Paid-in Capital*

The authorized capital amounts to Euro 50,000 consisting of 100,000 shares with a nominal value of full Euro 500 each, of which Euro 30,000 (60,000 shares) have been issued and fully paid. The changes in the share capital are as follows:

	<u>2010</u>	<u>2009</u>
Balance as at 1 January	30,000	30,000
Issues of new shares added from other reserves and from cash payments	-	-
Balance as at 31 December	<b>30,000</b>	<b>30,000</b>

### *Retained Earnings*

The changes in retained earnings are as follows;

	<u>2010</u>	<u>2009</u>
Balance as at 1 January	54,763	47,769
Net profit for the year	7,970	6,994
Balance as at 31 December	<b>62,733</b>	<b>54,763</b>

### *Other Reserves*

Other reserves comprises of fair value changes of available-for-sale portfolio and also the fair value changes of held-to-maturity securities transferred to investment portfolio from available-for-sale portfolio.

The changes in retained earnings are as follows;

	<u>2010</u>	<u>2009</u>
Balance as at 1 January	77	(299)
Amortization of fair value changes of transferred securities	18	18
Fair value changes of available-for-sale portfolio, net	(436)	383
Deferred taxation on other reserves	87	(25)
Balance as at 31 December	<b>(254)</b>	<b>77</b>

Had there been no transfer from available-for-sale portfolio to investment portfolio, the fair value changes as of 31 December 2010 would have been Euro 448 higher than the current balance (2009: Euro 520 higher)

## 7. Risk Management

The Bank manages the inherent risks in its business activities through an ongoing identification, measurement, monitoring and reporting processes. The most important types of risks which the bank is exposed to are credit risk, liquidity risk, market risk and operational risk.

### *Risk Management Structure*

The Management Board of the Bank is ultimately responsible for the identification and control of the risks; however there are separate independent bodies in the bank which are responsible for the management and monitoring of the risk. These bodies are:

- Supervisory Board
- Management Board
- Credit Committees
- Asset and Liability Committee
- Credits and Risk Management Functions
- Compliance and Operational Risk Function
- Treasury Function
- Internal Audit Function

### 7.1. Credit Risk

Credit Risk is broadly defined as the risk that obligations will not be repaid on time and in full as expected or contracted, resulting in a financial loss. Credit risk encompasses all phases of the process from target market definition to collection as well as management of the overall portfolio.

#### *Concentration risk:*

TEB NV monitors the credit risk concentrations which the bank may be exposed to. Such concentrations include:

- Significant exposure to an individual counterparty or group of related counterparties (Large exposure concentration)
- Credit exposures to counterparties in the same geographic region or the same economic sector (Geographical and industrial concentration)

#### *Country risk concentration*

Country risk is a broad category encompassing political, convertibility, and transfer risk. Any of these items may result in the inability of a business to receive or send funds to or from counterparties located outside its country or impair the ability of the business to operate, thereby causing financial losses.

Country risk exposures of the bank are within the limits set by the Supervisory Board.

Country risk distribution of risk assets and contingent liabilities classified according to the ultimate risk country is as follows:

	2010				2009			
	Funded	Contingent	Total	%	Funded	Contingents	Total	%
Turkey	390,209	116,089	506,298	56.9%	341,252	92,275	433,527	62.8%
The Netherlands	71,544	6,341	77,885	8.7%	84,300	1,886	86,186	12.5%
European Union	103,700	26,757	130,457	14.7%	30,969	17,621	48,590	7.0%
Other OECD countries	62,381	1,534	63,915	7.2%	30,235	28,761	58,996	8.5%
Others	92,571	19,220	111,791	12.5%	50,555	12,639	63,194	9.2%
<b>TOTAL</b>	<b>720,405</b>	<b>169,941</b>	<b>890,346</b>		<b>537,311</b>	<b>153,182</b>	<b>690,493</b>	

### Industry risk concentration

Industry distribution of risk assets and contingent liabilities is as follows:

	2010				2009			
	Funded	Contingent	Total	%	Funded	Contingent	Total	%
Metals	83,694	61,517	145,211	16.31%	48,915	58,038	106,953	15.49%
Energy	47,419	16,460	63,879	7.17%	21,578	32,057	53,635	7.77%
Chemicals	25,945	22,733	48,678	5.47%	19,777	11,762	31,539	4.57%
Fertilizer	27,536	11,168	38,704	4.35%	963	5,835	6,798	0.98%
Factoring	35,985	-	35,985	4.04%	33,628	-	33,628	4.87%
Shipping and transportation	21,344	-	21,344	2.40%	20,806	-	20,806	3.01%
Agricultural commodities	14,500	4,891	19,391	2.18%	13,086	792	13,878	2.01%
Pulp & paper	13,790	3,632	17,422	1.96%	5,981	7,491	13,472	1.95%
Private persons	13,001	1,176	14,177	1.59%	5,076	564	5,640	0.82%
Pharmaceuticals	13,891	-	13,891	1.56%	-	-	-	0.00%
Textiles	11,147	1,167	12,314	1.38%	9,850	1,095	10,945	1.59%
Food and beverages	10,035	-	10,035	1.13%	2,744	-	2,744	0.40%
Building and construction	559	5,000	5,559	0.62%	11,135	5,000	16,135	2.34%
Non-profit organizations	4,558	-	4,558	0.51%	1,273	-	1,273	0.18%
Printing	2,188	-	2,188	0.25%	661	-	661	0.10%
Mining	1,304	-	1,304	0.15%	1,047	-	1,047	0.15%
Leasing	-	-	-	0.00%	14,390	-	14,390	2.08%
Holding and investment companies	-	-	-	0.00%	3,442	-	3,442	0.50%
Machinery and vehicles	-	-	-	0.00%	-	-	-	0.00%
Other	2,928	783	3,711	0.41%	3,117	1,150	4,267	0.62%
<b>Loans and advances to customers</b>	<b>329,824</b>	<b>128,527</b>	<b>458,351</b>	<b>51.48%</b>	<b>217,469</b>	<b>123,784</b>	<b>341,253</b>	<b>49.43%</b>
Credit institutions	309,077	41,414	350,491	39.37%	232,259	29,398	261,657	37.89%
Central banks	19,400	-	19,400	2.18%	69,692	-	69,692	10.09%
Sovereign risk	62,104	-	62,104	6.98%	17,891	-	17,891	2.59%
<b>Total</b>	<b>720,405</b>	<b>169,941</b>	<b>890,346</b>	<b>100.00%</b>	<b>537,311</b>	<b>153,182</b>	<b>690,493</b>	<b>100.00%</b>
Collateralized transactions against customer deposits (-)	(14,274)	-	(14,274)		(11,403)	(148)	(11,551)	
<b>Total credit risk</b>	<b>706,131</b>	<b>169,941</b>	<b>876,072</b>		<b>525,908</b>	<b>153,034</b>	<b>678,942</b>	

Out of the total credit risk classified under credit institutions amounting Euro 350,491 (2009: Euro 261,657), Euro 115,356 (2009: Euro 39,714) is composed of funded and contingent risks with the credit institutions under the supervision of European Union and other OECD countries (excluding Turkey) and Euro 160,253 (2009: Euro 182,937) is composed of funded and contingent risks with Turkish credit institutions.

As of 31 December 2010, total customer deposits taken as collateral for collateralized transactions amount to Euro 19,555 (2009: Euro 11,690). The fair value of such deposits amounts to Euro 19,614 (2009: Euro 11,800).

*Credit Quality per Class of Financial Assets*

The credit quality of the Bank is managed by using both internal and external ratings. The below table shows the credit quality of the financial assets of the bank assessed in accordance with these ratings after impairment impacts.

As at 31 December 2010

	<b>High Grade</b>	<b>Standard Grade</b>	<b>Sub- Standard Grade</b>	<b>Total</b>
Cash and balances with central banks	19,400	-	-	19,400
Securities held-for-trading	-	-	8,079	8,079
Short term placements to banks	52,884	32,731	-	85,615
Financial assets at fair value through profit or loss	-	-	-	0
Loans and advances to banks	9,533	204,518	6,397	220,448
Loans and advances to customers	49,022	276,902	3,900	329,824
Securities available-for-sale	40,775	6,240	1,550	48,565
Securities held-to-maturity	-	8,474	-	8,474
<b>Total</b>	<b>171,614</b>	<b>528,865</b>	<b>19,926</b>	<b>720,405</b>
<b>Percentage of credit quality grades in total</b>	<b>24%</b>	<b>73%</b>	<b>3%</b>	<b>100%</b>

As at 31 December, 2009

	<b>High Grade</b>	<b>Standard Grade</b>	<b>Sub- Standard Grade</b>	<b>Total</b>
Cash and balances with central banks	69,692	-	-	69,692
Securities held-for-trading	-	-	5,277	5,277
Short term placements to banks	10,601	28,793	-	39,394
Financial assets at fair value through profit or loss	-	7,516	-	7,516
Loans and advances to banks	1,453	175,127	5,650	182,230
Loans and advances to customers	27,728	187,562	2,179	217,469
Securities available-for-sale	-	3,119	2,889	6,008
Securities held-to-maturity	-	8,081	1,644	9,725
<b>Total</b>	<b>109,474</b>	<b>410,198</b>	<b>17,639</b>	<b>537,311</b>
<b>Percentage of credit quality grades in total</b>	<b>20%</b>	<b>76%</b>	<b>4%</b>	<b>100%</b>

## 7.2. Liquidity Risk

Liquidity Risk is the current or prospective threat to encounter difficulty in meeting obligations associated with financial liabilities without bearing unacceptable costs or losses. Short term liquidity of the bank is managed by the treasury function. Risk management and financial control functions are responsible to control the liquidity position of the bank and report to the asset and liability committee. Asset and liability committee assesses the liquidity position of the bank and determines necessary strategies.

The maturity distribution of risk assets and liabilities is as follows:

As at 31 December 2010

<b>Assets</b>	<b>Up to 1 Month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Total</b>
Cash and balances with central banks	19,400	-	-	-	19,400
Securities held-for-trading	4	688	3,093	4,294	8,079
Short term placements to banks	85,615	-	-	-	85,615
Loans and advances to banks	16,897	54,800	120,194	28,557	220,448
Loans and advances to customers	197,867	68,873	43,635	19,449	329,824
Securities available-for-sale	529	191	1,899	45,946	48,565
Securities held-to-maturity	-	-	148	8,326	8,474
<b>Total</b>	<b>320,312</b>	<b>124,552</b>	<b>168,969</b>	<b>106,572</b>	<b>720,405</b>
<b>Liabilities</b>					
Due to banks	172,590	8,753	11,815	-	193,158
Due to customers	283,477	63,683	52,946	40,121	440,227
<b>Total</b>	<b>456,067</b>	<b>72,436</b>	<b>64,761</b>	<b>40,121</b>	<b>633,385</b>
<b>Cumulative maturity mismatch</b>	<b>(135,755)</b>	<b>(83,639)</b>	<b>20,569</b>	<b>87,020</b>	

As at 31 December 2009

<b>Assets</b>	<b>Up to 1 Month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>1 to 5 Years</b>	<b>Total</b>
Cash and balances with central banks	69,692	-	-	-	69,692
Securities held-for-trading	-	528	3,195	1,554	5,277
Short term placements to banks	39,394	-	-	-	39,394
Financial assets at fair value through profit and loss	-	-	7,516	-	7,516
Loans and advances to banks	7,007	30,729	137,559	6,935	182,230
Loans and advances to customers	97,590	46,247	36,100	37,532	217,469
Securities available-for-sale	-	-	2,892	3,116	6,008
Securities held-to-maturity	-	710	1,081	7,934	9,725
<b>Total</b>	<b>213,683</b>	<b>78,214</b>	<b>188,343</b>	<b>57,071</b>	<b>537,311</b>
<b>Liabilities</b>					
Due to banks	41,118	28,079	2,442	-	71,639
Due to customers	245,087	35,383	47,124	54,006	381,600
<b>Total</b>	<b>286,205</b>	<b>63,462</b>	<b>49,566</b>	<b>54,006</b>	<b>453,239</b>
<b>Cumulative maturity mismatch</b>	<b>(72,522)</b>	<b>(57,770)</b>	<b>81,007</b>	<b>84,072</b>	

### 7.3. Market Risk

The risks arising from changes in the market conditions that affect the value of the bank's financial assets and liabilities are classified in this risk group. Market risk includes a) price risk, b) currency and foreign exchange risk, c) interest rate risk.

#### Price Risk

Price risk is the current or prospective threat to bank's earnings and capital as a result of movements in the level or the volatility of market prices of securities and derivatives.

The bank manages its use of trading instruments in response to changing market conditions. Asset-liability risk management activities are conducted in the context of the bank's sensitivity to components of market risk. Risk management activities are aimed at optimizing net interest income and trading position income in consistence with the bank's business strategies.

#### Currency Risk

The bank is exposed to currency risk since substantial volumes of business are conducted in foreign currencies. Assets denominated in foreign currencies are funded by foreign currency customer deposits and by deposits or loans taken from banks. The bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. The currency exposures comprise the monetary liabilities of the bank that are not denominated in the functional and reporting currency of the bank, meaning any currency other than Euro.

As at 31 December 2010

<b>Financial Assets</b>	<b>Euro</b>	<b>USD</b>	<b>TRY</b>	<b>Other</b>	<b>Total</b>
Cash and balances with central banks	19,400	-	-	-	19,400
Securities held-for-trading	106	352	7,621	-	8,079
Derivative financial instruments	1,886	189	110	22	2,207
Short term placements to banks	65,692	18,094	884	945	85,615
Loans and advances to banks	91,592	128,856	-	-	220,448
Loans and advances to customers	15,666	250,298	51,084	12,776	329,824
Securities - available for sale	47,015	1,550	-	-	48,565
Securities - held-to-maturity	4,058	4,416	-	-	8,474
<b>Total financial assets</b>	<b>245,415</b>	<b>403,755</b>	<b>59,699</b>	<b>13,743</b>	<b>722,612</b>
<b>Financial Liabilities</b>					
Due to banks	86,045	68,335	38,778	-	193,158
Derivative financial instruments	516	15	46	50	627
Due to customers	238,381	168,052	31,425	2,369	440,227
<b>Total financial liabilities</b>	<b>324,942</b>	<b>236,402</b>	<b>70,249</b>	<b>2,419</b>	<b>634,012</b>
<b>Equity</b>	<b>92,515</b>	<b>(36)</b>	<b>-</b>	<b>-</b>	<b>92,479</b>
<b>Net notional amount of currency derivatives</b>	<b>169,177</b>	<b>(166,885)</b>	<b>10,658</b>	<b>(11,321)</b>	<b>1,629</b>
<b>Net Currency Position</b>	<b>(2,865)</b>	<b>504</b>	<b>108</b>	<b>3</b>	<b>(2,250)</b>
<b>Total commitments &amp; contingent liabilities</b>	<b>26,695</b>	<b>143,246</b>	<b>-</b>	<b>-</b>	<b>169,941</b>
<b>Sensitivity of Currency Exposures</b>					
Impact of 10% value increase against Euro	-	50	11	-	61

As at 31 December, 2009

<b>Financial Assets</b>	<b>Euro</b>	<b>USD</b>	<b>TRY</b>	<b>Other</b>	<b>Total</b>
Cash and balances with central banks	69,692	-	-	-	69,692
Securities held-for-trading	-	104	5,173	-	5,277
Derivative financial instruments	245	63	8	-	316
Short term placements to banks	6,676	17,533	12,488	2,697	39,394
Financial assets at fair value through profit or loss	7,516	-	-	-	7,516
Loans and advances to banks	103,755	78,475	-	-	182,230
Loans and advances to customers	36,411	140,744	34,905	5,409	217,469
Securities - available for sale	3,119	1,528	1,361	-	6,008
Securities - held-to-maturity	4,027	4,988	710	-	9,725
<b>Total financial assets</b>	<b>231,441</b>	<b>243,435</b>	<b>54,645</b>	<b>8,106</b>	<b>537,627</b>
<b>Financial Liabilities</b>					
Due to banks	26,061	19,653	18,096	7,829	71,639
Derivative financial instruments	32	2,325	424	32	2,813
Due to customers	251,334	112,642	11,922	5,701	381,599
<b>Total financial liabilities</b>	<b>277,427</b>	<b>134,620</b>	<b>30,442</b>	<b>13,562</b>	<b>456,051</b>
<b>Equity</b>	<b>84,837</b>	<b>(11)</b>	<b>14</b>	<b>-</b>	<b>84,840</b>
<b>Net notional amount of currency derivatives</b>	<b>128,203</b>	<b>(111,643)</b>	<b>(24,504)</b>	<b>5,445</b>	<b>(2,499)</b>
<b>Net Currency Position</b>	<b>(2,620)</b>	<b>(2,817)</b>	<b>(315)</b>	<b>(11)</b>	<b>(5,763)</b>
<b>Total commitments &amp; contingent liabilities</b>	<b>20,283</b>	<b>132,899</b>	<b>-</b>	<b>-</b>	<b>153,182</b>
<b>Sensitivity of Currency Exposures</b>	<b>-</b>	<b>(282)</b>	<b>(32)</b>	<b>(1)</b>	<b>(315)</b>
Impact of 10% value increase against Euro					

## Interest Rate Risk

The risk group defines the current or prospective threat to TEB NV's earnings and capital as a result of movements in interest rates which may occur as a parallel movement and/or a change in the yield curve and an unequal movement in the rates earned and paid in the same maturity segment of the yield curve.

The maturity distribution based on interest re-pricing schedules of risk assets and liabilities is as follows:

As at 31 December 2010

	<b>Up to 1 Month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>More than 1 Year</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with central banks	19,400	-	-	-	19,400
Securities held-for-trading	4	688	3,093	4,294	8,079
Short term placements to banks	85,615	-	-	-	85,615
Loans and advances to banks	16,897	54,800	123,939	24,812	220,448
Loans and advances to customers	211,464	71,672	44,484	2,204	329,824
Securities available-for-sale	529	3,195	1,899	42,942	48,565
Securities held-to-maturity	-	-	148	8,326	8,474
<b>Total</b>	<b>333,909</b>	<b>130,355</b>	<b>173,563</b>	<b>82,578</b>	<b>720,405</b>
<b>Liabilities</b>					
Due to banks	172,590	8,753	11,815	-	193,158
Due to customers	286,184	66,474	80,839	6,730	440,227
<b>Total</b>	<b>458,774</b>	<b>75,227</b>	<b>92,654</b>	<b>6,730</b>	<b>633,385</b>

As at 31 December, 2009

	<b>Up to 1 Month</b>	<b>1 to 3 Months</b>	<b>3 to 12 Months</b>	<b>More than 1 Year</b>	<b>Total</b>
<b>Assets</b>					
Cash and balances with central banks	69,692	-	-	-	69,692
Securities held-for-trading	-	528	3,195	1,554	5,277
Short term placements to banks	39,394	-	-	-	39,394
Financial assets at fair value through profit or loss	-	-	7,516	-	7,516
Loans and advances to banks	7,007	30,729	137,558	6,936	182,230
Loans and advances to customers	107,458	48,196	38,323	23,492	217,469
Securities available-for-sale	-	-	2,892	3,116	6,008
Securities held-to-maturity	-	710	1,081	7,934	9,725
<b>Total</b>	<b>223,551</b>	<b>80,163</b>	<b>190,565</b>	<b>43,032</b>	<b>537,311</b>
<b>Liabilities</b>					
Due to banks	41,118	28,080	2,441	-	71,639
Due to customers	246,455	38,567	66,385	30,193	381,600
<b>Total</b>	<b>287,573</b>	<b>66,647</b>	<b>68,826</b>	<b>30,193</b>	<b>453,239</b>

### Interest Rate Sensitivity

Interest rate sensitivity is the effect of assumed changes in the interest rates to the income statement and the equity of the Bank.

The following tables show the assumed impact of a reasonably possible change in the per currency interest rates to the net interest income in one year and to the equity of the bank by revaluing the financial assets and liabilities. The assumed changes are applied to the year end financial assets and liabilities.

	2010			2009	
	Increase in basis points	Yearly Net Interest Income	Equity	Yearly Net Interest Income	Equity
Euro	25	(391)	(163)	(326)	149
USD	25	418	(283)	278	(244)
TRY	100	(107)	(63)	246	(52)
Others	25	-	-	-	-

#### 7.4. Hedging

Due to bank's overall position and funding structure, its risk management policies require that it should manage its exposure to changes in foreign currency rates, interest rate, credit risk and market price risk exposure within certain guidelines. The bank uses derivative financial instruments to manage the potential earnings impact of foreign currency movements. Currency swaps and forward contracts are used for this purpose. The purpose of the bank's hedging activities are to protect itself from the risk that net cash inflows would be adversely affected from the changes in interest or exchange rates, credit ratings or market prices. The bank enters into transactions to ensure that it is economically hedged in accordance with risk management policies.

The bank does not apply hedge accounting under IAS 39.

#### 7.5. Derivative Financial Instruments

The bank utilizes derivative financial instruments for risk management purposes. Derivative financial instruments used by the bank include forwards and currency swaps whose value changes in response to changes in interest rates and foreign exchange rates. Derivatives are either standardized contracts transacted through regulated exchanges (exchange-traded products) or individually negotiated over-the-counter contracts (OTC products). A description of the main types of derivative instruments used by the bank is set out below.

##### *Currency swaps*

Currency swaps are over-the-counter agreements between the bank and other parties upon agreed notional amounts resulting in an economic exchange of currencies. Principal amount is also exchanged at currency swaps which the bank commits into. The bank's credit risk represents the potential cost to replace the swap contracts if the counterparties fail to fulfill their obligations (positive replacement cost).

##### *Forwards*

Forward contract are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Forward contracts result in credit exposure to the counterparty and also result in exposure to market risk based on changes in market prices relative to contracted amounts.

##### *Trading activities in derivative instruments*

The bank maintains active trading positions in derivative and non-derivative financial instruments within the regulatory limits. The bank carries position in financial instruments such as foreign exchange contracts and debt securities based on expectations of future market conditions as well as to reply the customer driven transactions.

The bank manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

## 7.6. Operational Risk

Operational risk is the risk of incurring an economic loss due to inadequate or failed internal processes, or due to external events, whether these events are deliberate, accidental or natural occurrences.

Operational risk reporting is the responsibility of Compliance and Operational Risk function.

The bank makes provisions for its expected operational loss events annually. The bank also reserves capital against operational risk in its solvency calculation with basic indicator approach.

## 7.7. Fair Values of Financial Assets and Liabilities

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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 indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used.

The estimated fair value of loans and advances 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.

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.

As at 31 December 2010

	Methodology(*)	Book value	Fair value	Average Interest Rates (%)	
				TRY	Other
<b>Financial Assets</b>					
Cash and balances with central banks		19,400	19,400	-	0.30%
Securities held-for-trading	Level 1	8,079	8,079	8.27%	6.18%
Derivative financial instruments	Level 2	2,207	2,207	-	-
Short term placements to banks		85,615	85,615	5.47%	0.64%
Loans and advances to banks		220,448	220,052	-	2.41%
Loans and advances to customers		329,824	330,175	7.95%	3.92%
Securities available-for-sale	Level 1	48,565	48,565	-	1.23%
Securities held-to-maturity		8,474	8,922	-	4.97%
		<b>722,612</b>	<b>723,015</b>		
<b>Financial Liabilities</b>					
Due to banks		193,158	193,148	6.41%	1.04%
Derivative financial instruments	Level 2	627	627		
Due to customers		440,227	440,372	6.66%	2.10%
		<b>634,012</b>	<b>634,147</b>		

(\*) For assets and liabilities that are valued at fair value, the IFRS level classification indicates how this fair value has been determined. In paragraph 3.11, the details on fair value determination have been described

As at 31 December, 2009

	Methodology(*)	Book value	Fair value	Average Interest Rates (%)	
				TRY	Other
<b>Financial Assets</b>					
Cash and balances with central banks		69,692	69,692	-	0.34%
Securities held-for-trading	Level 1	5,277	5,277	11.71%	8.11%
Derivative financial instruments	Level 2	316	316	-	-
Short term placements to banks		39,394	39,394	5.89%	0.22%
Financial assets at fair value through profit or loss	Level 2	7,516	7,516	-	2.52%
Loans and advances to banks		182,230	182,179	-	3.02%
Loans and advances to customers		217,469	217,441	8.51%	4.76%
Securities available-for-sale	Level 1	6,008	6,008	12.69%	6.98%
Securities held-to-maturity		9,725	10,097	5.78%	5.57%
		<b>537,627</b>	<b>537,920</b>		
<b>Financial Liabilities</b>					
Due to banks		71,639	71,639	6.23%	1.20%
Derivative financial instruments	Level 2	2,813	2,813	-	-
Due to customers		381,600	382,317	6.26%	2.51%
		<b>456,052</b>	<b>456,769</b>		

## 8. Commitments and Contingent Liabilities

Commitments and contingent liabilities consist of all liabilities arising from transactions in which the bank has provided a guarantee or entered into a commitment to third parties.

	2010	2009
Credit card limits	642	547
Letters of Guarantee	15,237	21,504
Export Letters of Credit	41,414	29,398
Import Letters of Credit	112,648	101,733
Balance as at 31 December	<b>169,941</b>	<b>153,182</b>

## 9. Custody Services

The bank provides custody services to its clients with respect to their security transactions through its participation, Stichting Effecten Dienstverlening which is consolidated to the financial statements of the bank. The total nominal amount of assets held in custody of Stichting for the clients of the bank as of 31 December 2010 is Euro 48,326 (2009: Euro 52,080).

## 10. Related Party Transactions

A number of transactions have been concluded on an arm's length basis in the normal course of the business with the group and affiliated companies. These transactions include loans, deposits, letters of credit, bills discounted and letters of guarantee and were carried out on commercial terms at market rates.

Related parties are defined as follows;

The bank is wholly owned by Türk Ekonomi Bankası A.Ş. (TEB A.Ş.) which is a part of TEB Financial Group of which TEB Mali Yatırımlar A.Ş.(TEB Financial Investments) is the holding company. The shares of TEB Mali Yatırımlar A.Ş. are held by BNP Paribas and Çolakoğlu Group.

For the years of 2010 and 2009, related party figures include exposures and income and expense amounts generated through the transactions done with TEB Financial Group, Çolakoğlu Group companies and BNP Paribas.

Income Statement Components	2010			2009		
	TEB A.Ş.	Other	Total	TEB A.Ş.	Other	Total
Interest income	15	103	118	166	263	429
Interest expense	(1)	(1,368)	(1,369)	(2)	(1,063)	(1,065)
<b>Net interest income / (expense)</b>	<b>14</b>	<b>(1,264)</b>	<b>(1,250)</b>	<b>164</b>	<b>(800)</b>	<b>(636)</b>
Fees and commission income	15	107	123	219	446	665
Fees and commission expense	(11)	(19)	(30)	(3)	-	(3)
<b>Net fees and commission income / (expense)</b>	<b>4</b>	<b>88</b>	<b>93</b>	<b>216</b>	<b>446</b>	<b>662</b>
<b>Operating income</b>	<b>18</b>	<b>(1,176)</b>	<b>(1,157)</b>	<b>380</b>	<b>(354)</b>	<b>26</b>
<b>Balance Sheet Components</b>	<b>2010</b>			<b>2009</b>		
	<b>TEB A.Ş.</b>	<b>Other</b>	<b>Total</b>	<b>TEB A.Ş.</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>						
Short term placements to banks	161	32,234	32,394	1,895	1,320	3,215
Loans and advances to banks	4,554	-	4,554	-	-	-
Loans and advances to customers	-	-	-	-	362	362
<b>Total assets</b>	<b>4,715</b>	<b>32,234</b>	<b>36,949</b>	<b>1,895</b>	<b>1,682</b>	<b>3,577</b>
<b>Liabilities</b>						
Due to banks	27	26,741	26,768	26	22,017	22,043
Due to customers	-	3,221	3,221	-	5,067	5,067
<b>Total liabilities</b>	<b>27</b>	<b>29,962</b>	<b>29,989</b>	<b>26</b>	<b>27,084</b>	<b>27,110</b>
<b>Commitments and contingent liabilities</b>						
Export letters of credit	7,264	1,249	8,512	2,432	952	3,384
<b>Total commitments and contingent liabilities</b>	<b>7,264</b>	<b>1,249</b>	<b>8,512</b>	<b>2,432</b>	<b>952</b>	<b>3,384</b>

Administrative expenses include management fee expense of Euro 200 and 161 to TEB Mali Yatırımlar A.Ş. as of 31 December 2010 and 2009, respectively.

In connection with the risk assets and contingent transactions of related parties, there is no balance allocated as pledge to the Bank amongst due to customers as of 31 December 2010 (2009: nil).

The members of the Management Board are considered key management personnel. The remuneration of members of the Supervisory Board and Management Board is as follows.

	2010		2009	
	Supervisory Board	Management Board	Supervisory Board	Management Board
Salaries and Bonuses	32	1,071	23	971

Remuneration represents the full compensation for the Management and Supervisory members as there is no separate pension scheme for them.

No shares or share options of TEB AS or TEB NV are granted to directors or other employees.

## 11. Solvency Ratio and Capital Risk Management

The solvency ratio of the bank is 14% and 16% as of 31 December 2010 and 2009 respectively in accordance with Basel II Pillar 1 requirements and internal capital adequacy assessment rules of the Bank.

Own funds of the bank amount to Euro 92,479 as of 31 December 2010 (2009: Euro 84,840).

The bank ensures that regulatory capital requirements are met during its business planning process and controls such compliance through the year. In 2010 and 2009, the bank complied with the Basel II and BIS requirements and additional regulatory capital requirements, where applicable, whole through the periods. The management of the Bank observes and supervises the effective use of capital at its business operations throughout the year.

### **Basel II**

Basel Committee on Banking Supervision released the comprehensive version of "International Convergence of Capital Measurement and Capital Standard: A Revised Framework (Basel II)" as of June 2006. Capital Requirements Directive was also formally adopted by Council and European Parliament in June 2006. The directive introduces an updated supervisory framework in the European Union which reflects the Basel II rules on capital standards.

Within the context of the Basel II preparations, TEB NV has implemented its ICAAP (Internal Capital Adequacy Assessment Process) during 2007 and updated in 2008. ICAAP addresses all risk management tools of the bank and to inform the Management and Supervisory Boards about the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is required when the mitigating factors are taken into consideration. ICAAP document covers minimum capital requirements for credit risk, market risk and operational risk and indicates the control and management of the all the other key risks of the Bank. ICAAP also covers the stress testing scenarios, where certain level of stress is exposed hypothetically to the significant risk factors of TEB NV. ICAAP process is an ongoing process through which the Bank is going to assess the changing market conditions as well as the risks which the Bank is exposed to; accordingly the Bank updates its capital adequacy and planning process to address all significant risks sufficiently.

Capital adequacy requirement calculations which include both pillar 1 and pillar 2 components are performed on a regular monthly basis and reported to the management board of the Bank.

TEB NV complies with the capital adequacy requirements of Basel II since 1 January 2008. Pillar 3 requirements of Basel II framework are addressed in the management report and financial statements of the Bank starting from year 2008.

## Capital Adequacy Assessment

The bank uses the following methodologies while calculating its capital requirement.

- Credit risk – Standardized approach
- Credit risk mitigation – Comprehensive approach
- Counterparty credit risk – Mark to market method
- Market risk – Standardized approach
- Operational risk – Basic indicator method
- Concentration risk – Internal model

While applying standardized approach for credit risk, ratings provided by Fitch Ratings, Moody's Investors Service, Standard & Poor's Rating Services are used as external credit risk assessment.

If trading book of the Bank is no more than 5% of the overall business and does not exceed Euro 15 million, De Minimis Exemption Rule is applied, meaning that the capital requirements for the market risk of financial instruments in the trading book will be calculated under credit risk.

The following table analyses the solvency of the Bank as of 31 December 2010 and 2009 with a capital requirement of 8%.

As at 31 December 2010

	Nominal Exposure	Risk Weighted Exposure	Capital Requirement		
			Pillar 1	Pillar 2	Total
<b>Credit Risk and Concentration Risk</b>					
Sovereigns	81,504	25,660	2,053	-	2,053
Financial Institutions	350,491	221,104	17,688	3,765	21,453
Non-financial institutions	458,351	379,263	30,341	4,890	35,231
Other Assets	9,142	8,719	698	13	711
<b>Total Credit Risk and Concentration Risk</b>	<b>899,488</b>	<b>634,746</b>	<b>50,780</b>	<b>8,668</b>	<b>59,448</b>
Operational Risk			3,055		3,055
Interest Rate Risk in Banking Book				1,340	1,340
<b>Total Capital Requirement</b>					<b>63,843</b>
Total Equity					92,479
Surplus Equity					28,636
Solvency ratio (pillar 1)					14%
Solvency ratio (pillar 1 and pillar 2 combined)					12%

As at 31 December 2009

	Nominal Exposure	Risk Weighted Exposure	Capital Requirement		
			Pillar 1	Pillar 2	Total
<b>Credit Risk and Concentration Risk</b>					
Sovereigns	87,583	12,634	1,011	146	1,157
Financial Institutions	261,657	194,075	15,526	4,632	20,158
Non-financial institutions	341,253	268,529	21,482	4,541	26,023
Other Assets	5,580	5,580	446	-	446
<b>Total Credit Risk and Concentration Risk</b>	<b>696,073</b>	<b>480,818</b>	<b>38,465</b>	<b>9,319</b>	<b>47,784</b>
Operational Risk			2,847	-	2,847
Foreign exchange position risk			215	-	215
Interest Rate Risk in Banking Book			-	2,009	2,009
<b>Total Capital Requirement</b>					<b>52,855</b>
Total Equity					84,840
Surplus Equity					31,985
Solvency ratio (pillar 1)					16%
Solvency ratio (pillar 1 and pillar 2 combined)					13%

**The Economy Bank N.V.**  
**Company Financial Statements**  
**For the year ended as of 31 December 2010**

## The Economy Bank N.V.

### Company Income Statement

For the year ended as of 31 December 2010  
(Thousands of Euros)

	Notes	2010	2009
Interest income		24,874	25,336
Interest expense		(12,412)	(13,714)
<b>Net interest income</b>		<b>12,462</b>	<b>11,622</b>
Fees and commission income		9,864	6,498
Fees and commission expense		(162)	(103)
<b>Net fees and commissions income</b>	5.2	<b>9,703</b>	<b>6,395</b>
Net trading income	5.3	(870)	173
Net gains / (losses) on Financial assets at fair value through profit and loss	5.4	179	634
<b>Total operating income</b>		<b>21,473</b>	<b>18,824</b>
Specific impairment losses		(1,857)	(765)
Portfolio level impairment losses		(1,106)	(746)
<b>Net operating income</b>		<b>18,510</b>	<b>17,313</b>
Personnel expenses	5.5	(5,347)	(5,121)
Administrative expenses	13.1	(2,327)	(2,259)
Other operating expenses	5.7	(184)	(532)
Depreciation and amortization	14.1,6.10	(7,858) (209)	(7,912) (211)
<b>Operating expenses</b>		<b>(8,067)</b>	<b>(8,123)</b>
<b>Operating profit before taxation</b>		<b>10,443</b>	<b>9,190</b>
Income tax expense	13.2	(2,633)	(2,329)
<b>Profit for the year attributable to the equity holders of the parent</b>		<b>7,810</b>	<b>6,861</b>
<b>Earnings per share (full Euros)</b>			
Basic earnings per share		130.17	114.34
Diluted earnings per share		130.17	114.34

**The Economy Bank N.V.  
Company Balance Sheet**

**As at 31 December 2010  
After proposed profit appropriation  
(Thousands of Euros)**

	<b>Notes</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
Cash and balances with central banks	6.1	19,400	69,692
Securities held-for-trading	6.2	8,079	5,277
Derivative financial instruments	6.11	2,207	316
Short term placements to banks	6.3	85,606	39,385
Financial assets at fair value through profit or loss	6.4	-	7,516
Loans and advances to banks	6.5 6.6	220,448	182,230
Loans and advances to customers		329,824	217,469
Securities available-for-sale	6.7	48,565	6,008
Securities held-to-maturity	6.8	8,474	9,725
Other assets and prepayments	14.3	5,344	5,918
Equipment	14.1	111	144
Intangible assets	6.10	448	552
Participations	14.2	143	143
<b>Total Assets</b>		<b>728,649</b>	<b>544,375</b>
<b>Liabilities</b>			
Due to banks	6.13	193,158	71,639
Derivative financial instruments	6.11	627	2,813
Due to customers	14.4	440,743	383,836
Taxation liability	14.5	235	99
Other liabilities and accruals	14.6	2,263	1,844
<b>Total Liabilities</b>		<b>637,026</b>	<b>460,231</b>
<b>Equity</b>			
<b>Attributable to the equity holders of parent</b>			
Share capital	6.17	30,000	30,000
Retained earnings	14.7	61,877	54,067
Other Reserves	6.17	(254)	77
<b>Total Equity</b>		<b>91,623</b>	<b>84,144</b>
<b>Total Equity And Liabilities</b>		<b>728,649</b>	<b>544,375</b>
Commitments		642	547
Contingent Liabilities		169,299	152,635
<b>Total Commitments And Contingent Liabilities</b>	8	<b>169,941</b>	<b>153,182</b>

**The Economy Bank N.V.**  
**Company Statement of Changes in Equity**

**For the year ended as of 31 December 2010**  
**After proposed profit appropriation**  
**(Thousands of Euros)**

	<b>Paid-in capital</b>	<b>Retained earnings</b>	<b>Other Reserves</b>	<b>Total</b>
<b>Balance at 1 January 2009</b>	30,000	47,206	(299)	<b>76,907</b>
Profit for the year	-	6,861	-	<b>6,861</b>
Net gains/(losses) on securities through other comprehensive income	-	-	376	<b>376</b>
Total comprehensive income	-	6,861	376	<b>7,237</b>
<b>Balance at 31 December 2009</b>	<b>30,000</b>	<b>54,067</b>	<b>77</b>	<b>84,144</b>
<b>Balance at 1 January 2010</b>	30,000	54,067	77	<b>84,144</b>
Profit for the year	-	7,810	-	<b>7,810</b>
Net gains/(losses) on securities through other comprehensive income	-	-	(331)	<b>(331)</b>
Total comprehensive income	-	7,810	(331)	<b>7,479</b>
<b>Balance at 31 December 2010</b>	<b>30,000</b>	<b>61,877</b>	<b>(254)</b>	<b>91,623</b>

**The Economy Bank N.V.**  
**Company Cash Flow Statement**

**For the year ended as of 31 December 2010**  
**(Thousands of Euros)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>			
Profit for the year		7,810	6,861
Depreciation and amortization	14.1.6.10	209	211
Change in trading securities held for trading		(2,802)	(3,785)
Change in derivative financial instruments		(4,077)	2,693
Change in short term placements to banks		7,176	9,195
Change in financial assets designated at fair value		7,516	22,888
Change in loans and advances to banks		(38,218)	(23,173)
Change in loans and advances to customers		(112,355)	(58,924)
Change in securities available for sale		(42,888)	7,366
Change in due to banks		81,733	42,533
Change in due to customers		56,907	(138,287)
Other changes in other assets and liabilities		1,126	(193)
<b>Total cash flows from operating activities</b>		<b>(37,863)</b>	<b>(132,615)</b>
<b>Cash flows from investment activities</b>			
Investment in property and equipment and intangible assets	14.1.6.10	(71)	(515)
Change in securities held-to-maturity		1,251	138
<b>Total cash flows from investment activities</b>		<b>1,180</b>	<b>(377)</b>
<b>Total cash flows from financing activities</b>		-	
<b>Net cash flow</b>		<b>(36,683)</b>	<b>(132,992)</b>
Cash balance as at the beginning of the year		74,023	207,015
Cash balance as at the end of year		37,340	74,023
<b>Change in cash balance</b>		<b>(36,683)</b>	<b>(132,992)</b>
<b>Cash and cash equivalents</b>			
Cash and balances with Central Banks		18,006	61,121
Net cash position from banks on demand & overnight placements		19,334	12,902
<b>Total cash and cash equivalents</b>		<b>37,340</b>	<b>74,023</b>
<b>Cash flow from operating activities include:</b>			
Interest received		28,288	24,584
Interest paid		(12,739)	(13,677)
Tax paid		(2,684)	(2,660)
Effect of exchange rate changes on cash and cash equivalents		439	(825)

## Notes to the Company Financial Statements

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### 12. Basis of Presentation

The company financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The accounting principles as described in the notes to the consolidated financial statements apply to the company financial statements, unless indicated otherwise.

The notes of the consolidated financial statements apply to the company financial statements as well, unless such notes are separately provided in the notes to the company financial statements.

#### 12.1. Participations

The participations balance presented in the company balance sheet of the bank represent the 100% owned entities Kronenburg Vastgoed B.V. (KVBV) and Stichting Effecten Dienstverlening (Stichting), the foundation which 100% of its equity is provided by the bank.

These participations are stated at cost. As a consequence thereof, the consolidated equity and result differs from the Company equity and result.

#### 12.2. Taxation

The bank is head of a fiscal unity with its subsidiary KVBV. The taxation liability of the fiscal unity is calculated on an entity basis for TEB NV and KVBV separately. TEB NV holds the responsibility for settlement of the taxation liabilities of the fiscal unity of which the taxation related to KVBV is settled through the intercompany accounts.

### 13. Income Statement

#### 13.1. Administrative Expenses

	<u>2010</u>	<u>2009</u>
Maintenance costs and administrative expenses	1,575	1,502
Communication expense	425	430
Rent expense	327	328
	<u>2,327</u>	<u>2,259</u>

#### 13.2. Income Tax Expense

The effective tax rate of the bank is 25.5% (2009: 25.5%), which does not materially differ from the nominal tax rate.

## Notes to the Company Financial Statements (continued)

### 14. Balance Sheet

#### 14.1. Equipment

The breakdown of equipment as at 31 December 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
	<u>Equipment</u>	<u>Equipment</u>
Balance sheet value as at 1 January	145	129
Additions	49	112
Disposals	(6)	-
Depreciation	(76)	(96)
Balance sheet value as at 31 December	<b>112</b>	<b>145</b>
Cost of property and equipment	1,329	1,287
Accumulated depreciation	(1,218)	(1,142)

#### 14.2. Participations

The participations balance presented in the company balance sheet of the bank represent 100% owned KVBV and Stichting, the foundation which 100% of its equity is provided by the bank.

#### 14.3. Other Assets and Prepayments

This item comprises advances to suppliers, employees and prepaid expenses including the net prepaid corporate income tax paid through out the year, if any. Advances to participations, namely to KVBV, are also classified as other asset. As of 31 December 2010 it also includes an advance payment to DNB amounting to Euro 1,920 netted off with provisions reflecting the expected loss of Euro 450 as the contribution to guarantee scheme relating to the bankruptcy of DSB Bank.

#### 14.4. Due to customers

Due to customers includes funds entrusted to the bank by customers such as current accounts amounting to Euro 219,420 and time deposits of Euro 221,323 as of 31 December 2010, respectively (2009: Euro 194,459 and Euro 189,377). The funds entrusted by private persons and corporate customers amounts to Euro 301,571 and Euro 139,172 as of 31 December 2010 (2009: Euro 300,587 and Euro 83,249).

As of 31 December 2010 average funding cost for TRY is 6.66% (2009: 6.26%) and 2.10% for other currencies (2009: 2.51%)

In connection with the risk assets and contingent transactions, amongst due to customers, Euro 34,341 and Euro 15,122 have been allocated as pledge to the bank against the assets and contingent items as of 31 December 2010, respectively (2009: Euro 18,011 and Euro 8,259, respectively).

#### 14.5. Taxation Liability

This item includes corporate income taxes payable of the bank. Taxation liability has been higher than prepaid taxes as of 31 December 2010. Therefore net taxation liability amounts Euro 235. (2009: Euro 99).

#### 14.6. Other Liabilities and Accruals

This item includes expenses recognized, but whose actual payment occurs in a different period as well as payables to various suppliers and payables to tax authorities.

#### 14.7. Retained Earnings

The changes in retained earnings are as follows;

	<u>2009</u>	<u>2008</u>
Balance as at 1 January	54,067	47,206
Net profit for the year	7,810	6,861
Balance as at 31 December	61,877	54,067

## **Notes to the Company Financial Statements (continued)**

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### **15. Other Information**

#### **15.1. The Articles of Association with respect to Profit Appropriation**

Profit is appropriated in accordance with the article 31 of the articles of association. The main stipulations governed in this are as follows:

- The profits shall be at the disposal of the general shareholders meeting.
- Dividends may be paid only up to an amount, which does not exceed the amount of the distributable part of the net assets.
- Dividends shall be paid after adoption of the annual amounts from which it appears that payment of dividends is permissible.

#### **15.2. Proposed Profit Appropriation**

Pursuant to article 31 of the Articles of Association, The Management Board proposed the appropriation of net profit as follows:

Additions to Retained Earnings Euro 7,810.

This proposal has been included in the consolidated and company financial statements of the bank.

#### **15.3. Approval of Financial Statements**

The financial statements were approved by Supervisory Board of the Bank and authorized for issue on 15 April 2011.

#### **15.4. Events after Balance Sheet Date**

There are no events which took place after the balance sheet date that could result to a major impact on financial statements of the bank.

### **Management Board**

Özden Başaran Odabaşı - Managing Director  
Ömer Orkun Mungan - Senior Director

**15.5. Auditors' Report**