

**Türkiye İhracat Kredi Bankası  
Anonim Şirketi**

Financial Statements  
As At and For The Year Ended  
31 December 2019  
With Independent Auditors' Report Thereon

28 February 2020

*This report contains the "Independent Auditors' Report" comprising 6 pages and; the "Financial statements and their explanatory notes" comprising 73 pages.*

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KPMG Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
İş Kuleleri Kule 3 Kat: 1-9  
Levent 34330 İstanbul  
Tel +90 212 316 6000  
Fax +90 212 316 6060  
www.kpmg.com.tr

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Türkiye İhracat Kredi Bankası AŞ

### *Opinion*

We have audited the financial statements of Türkiye İhracat Kredi Bankası AŞ ("the Bank") which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Impairment of loans and advances*

Refer to Note 3.9 "Explanations on financial assets" relating to the impairment of loans measured at amortised cost.

Key audit matter	How the matter was addressed in our audit
<p>As of 31 December 2019, loans and advances comprise 88% of the Bank's assets.</p> <p>The Bank recognizes its loans and advances in accordance with the IFRS 9 Financial Instruments Standard ("Standard").</p> <p>The Bank applies the "expected credit loss model" which contains significant assumptions and estimates in determining the impairment of financial assets in accordance with the Standard.</p> <p>The significant assumptions and estimates of the Bank's management are as follows:</p> <ul style="list-style-type: none"> <li>-significant increase in credit risk;</li> <li>-incorporating the forward looking macroeconomic information in calculation of credit risk; and</li> <li>-design and implementation of expected credit loss model.</li> </ul> <p>The determination of the impairment of loans and advances to customers measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans and advances to customers measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets.</p>	<p>The audit procedures for expected credit loss included below:</p> <ul style="list-style-type: none"> <li>• We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of information risk management specialists.</li> <li>• We evaluated the Bank's contractual cash flow tests prepared by the Bank for loans and the results of the tests have been evaluated for compliance with loan agreements.</li> <li>• We evaluated the adequacy of the subjective and objective criteria that are defined in the Bank's impairment accounting policy compared with the Standard.</li> <li>• We evaluated the Bank's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialists.</li> <li>• We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables.</li> </ul>



Key audit matter (continued)	How the matter was addressed in our audit (continued)
<p>The Bank calculates expected credit losses on both individual and collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions.</p> <p>Provisions set aside for the Bank are modeled on prospective expectations by means of data collection in the past and the current period.</p> <p>Impairment on loans and advances measured at amortised cost was considered to be one of the key audit matters, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.</p>	<ul style="list-style-type: none"><li>• We evaluated the adequacy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis.</li><li>• We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters were recalculated.</li><li>• We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method.</li><li>• We evaluated the qualitative assessments which are used in determining the significant increase in credit risk.</li><li>• Additionally, we also evaluated the adequacy of the financial statement disclosures related to impairment provisions.</li></ul>



### *Hedge accounting*

Refer to Note 3.8 for the relevant accounting policy and a discussion of significant accounting estimates.

<b><i>Key audit matter</i></b>	<b><i>How the matter is addressed in our audit</i></b>
<p>The Bank applies fair value hedge transactions to manage fixed interest rate risk due to securities issued at fixed rate with interest rate swap transactions.</p> <p>The Bank applies cash flow hedge transactions to manage foreign currency risk due to securities issued at fixed rate and loans and advances at floating rate with cross-currency swap transactions.</p> <p>The criteria for the application of the hedge accounting in accordance with IFRS include defining, documenting and regularly testing the effectiveness of the hedge accounting transactions. Due to the fact that hedge accounting has complicated structure and requires technical calculations, we considered this to be one of the key audit matters.</p>	<p>The audit procedures for testing hedge accounting included below;</p> <ul style="list-style-type: none"><li>• Documentation and appropriateness of hedging relationships of cash flow hedge and fair value hedge transactions have been examined.</li><li>• The objective of the hedge accounting and its compliance with IFRS requirements are taken into account. The management's assessment of effectiveness, measuring ineffectiveness and appropriateness of accounting records were tested.</li><li>• The hedge accounting controls, hedging relationship, the effectiveness controls at inception and at subsequent periods were understood and tested.</li><li>• Additionally, we also evaluated the adequacy of the financial statement disclosures related to hedge accounting.</li></ul>

### *Responsibilities of Management and Those Charged with Governance for the Unconsolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.



## *Auditors' Responsibilities for the Audit of the Unconsolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019**

(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

	<i>Notes</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>ASSETS</b>			
Cash and due from banks	6	9,988,218	4,234,607
Derivative financial assets	7	6,327	443
Derivative assets held for risk management	4	1,405,430	711,768
Loans and advances	8	142,342,072	129,670,051
Investment securities			
- Financial assets measured at fair value through other comprehensive income	9	37,822	20,447
- Financial assets measured at amortized cost	9	7,089,499	3,249,301
Property and equipment	10	22,290	6,612
Intangible assets	11	7,120	7,004
Investment property	12	2,046	2,141
Other assets	13	1,158,085	1,333,377
<b>Total assets</b>		<b>162,058,909</b>	<b>139,235,751</b>
<b>LIABILITIES</b>			
Funds borrowed	14	127,310,483	108,730,948
Debt securities in issue	15	18,791,531	17,178,988
Subordinated liabilities	16	4,025,854	2,995,130
Interbank money market deposits	14	-	139,005
Other liabilities and provisions	18	2,712,989	2,054,385
Derivative financial liabilities	7	31,766	129,204
Derivative liabilities held for risk management	4	75,183	339,651
Retirement benefit obligations	19	30,076	21,855
<b>Total liabilities</b>		<b>152,977,882</b>	<b>131,589,166</b>
<b>EQUITY</b>			
- Share capital	20	7,160,000	6,350,000
- Adjustment to share capital		38,091	38,091
Total paid in share capital		7,198,091	6,388,091
Legal reserves		422,618	379,260
Hedging reserves		48,999	49,233
Fair value reserves		28,658	11,282
Retained earnings		1,382,661	818,719
<b>Total equity</b>		<b>9,081,027</b>	<b>7,646,585</b>
<b>Total liabilities and equity</b>		<b>162,058,909</b>	<b>139,235,751</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)*

	<i>Notes</i>	<b>2019</b>	<b>2018</b>
Interest income	21	4,856,159	3,391,095
Interest expense	21	(3,741,609)	(2,531,631)
<b>Net interest income</b>		<b>1,114,550</b>	<b>859,464</b>
Fees and commission income		428,486	350,141
Fees and commission expense		(253,324)	(206,315)
<b>Net fee and commission income</b>		<b>175,162</b>	<b>143,826</b>
Impairment losses on loans and advances	8	(133,419)	(108,635)
Foreign exchange gain/(losses), net	22	(506,373)	(1,135,887)
Gains/(losses) on financial assets through profit or loss, net	23	1,133,402	1,317,750
Dividend income		70	151
Other operating income	24	7,789	10,655
<b>Operating profit before operating expenses</b>		<b>1,791,181</b>	<b>1,087,324</b>
Operating expenses	25	(359,546)	(272,461)
<b>Net profit for the period</b>		<b>1,431,635</b>	<b>814,863</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

*(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)*

	<b>2019</b>	<b>2018</b>
<b>Net profit for the period</b>	<b>1,431,635</b>	<b>814,863</b>
<b>Other comprehensive income</b>	<b>9,120</b>	<b>40,667</b>
<i>Items that will not be reclassified to profit or loss</i>	<i>(8,022)</i>	<i>(206)</i>
Remeasurements of the defined benefit asset (liability)	(8,022)	(206)
<i>Items that are or may be reclassified to profit or loss</i>	<i>17,142</i>	<i>40,873</i>
Net change in fair values of financial assets measured at fair value through other comprehensive income	17,376	(9,872)
Cash flow hedges - effective portion of changes in fair value	(234)	50,745
<b>Total comprehensive income for the period</b>	<b>1,440,755</b>	<b>855,530</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

	Notes	Share capital								Total equity
		Share capital	Adjustment to share capital	Total paid-in share capital	Legal reserves	Other reserves	Hedging reserves	Fair value reserves	Retained earnings	
<b>Balance at 1 January 2018</b> (Previously reported)	<b>20</b>	<b>4,800,000</b>	<b>38,091</b>	<b>4,838,091</b>	<b>349,896</b>	-	<b>(1,512)</b>	<b>21,154</b>	<b>567,257</b>	<b>5,774,886</b>
Impact of adopting IFRS 9 at 1 January 2018		-	-	-	-	-	-	-	20,432	20,432
<b>Restated balance at 1 January 2018</b>		<b>4,800,000</b>	<b>38,091</b>	<b>4,838,091</b>	<b>349,896</b>	-	<b>(1,512)</b>	<b>21,154</b>	<b>587,689</b>	<b>5,795,318</b>
Profit for the period		-	-	-	-	-	-	-	814,863	814,863
Other comprehensive income for the period		-	-	-	-	-	50,745	(9,872)	(206)	40,667
<b>Total comprehensive income</b>		-	-	-	-	-	<b>50,745</b>	<b>(9,872)</b>	<b>814,657</b>	<b>855,530</b>
Capital increase	20	1,550,000	-	1,550,000	-	-	-	-	(550,000)	1,000,000
Dividends to equity holders		-	-	-	-	-	-	-	(4,263)	(4,263)
Transfers to legal reserves		-	-	-	29,364	-	-	-	(29,364)	-
<b>Balance at 31 December 2018</b>	<b>20</b>	<b>6,350,000</b>	<b>38,091</b>	<b>6,388,091</b>	<b>379,260</b>	-	<b>49,233</b>	<b>11,282</b>	<b>818,719</b>	<b>7,646,585</b>
<b>Balance at 1 January 2019</b>	<b>20</b>	<b>6,350,000</b>	<b>38,091</b>	<b>6,388,091</b>	<b>379,260</b>	-	<b>49,233</b>	<b>11,282</b>	<b>818,719</b>	<b>7,646,585</b>
Profit for the period		-	-	-	-	-	-	-	1,431,635	1,431,635
Other comprehensive income for the period		-	-	-	-	-	(234)	17,376	(8,022)	9,120
<b>Total comprehensive income</b>		-	-	-	-	-	<b>(234)</b>	<b>17,376</b>	<b>1,423,613</b>	<b>1,440,755</b>
Capital increase	20	810,000	-	810,000	-	-	-	-	(810,000)	-
Dividends to equity holders		-	-	-	-	-	-	-	(6,313)	(6,313)
Transfers to legal reserves		-	-	-	43,358	-	-	-	(43,358)	-
<b>Balance at 31 December 2019</b>	<b>20</b>	<b>7,160,000</b>	<b>38,091</b>	<b>7,198,091</b>	<b>422,618</b>	-	<b>48,999</b>	<b>28,658</b>	<b>1,382,661</b>	<b>9,081,027</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

	<i>Notes</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>			
Net profit for the period		1,431,635	814,863
<b>Adjustments for:</b>			
Depreciation and amortisation	25	9,777	3,845
Provision for loan losses	8	133,419	108,635
Provision for employment termination benefits	19	-	2,532
Provision for unused vacation	18	422	2,265
Net gain on sale of property and equipment		154	-
Interest paid		(2,056,622)	(1,455,142)
Interest received		4,531,480	3,287,387
Unrealised foreign exchange differences		(759,150)	102,578
Remeasurement of derivative financial instruments		337,640	459,270
		<b>3,628,755</b>	<b>3,326,223</b>
Net increase in loans and advances		(13,475,985)	(38,981,217)
Net decrease in financial assets at measured fair value through profit or loss		-	3,050
Proceeds from borrowings		35,803,588	156,041,531
Repayments of borrowings		(16,985,373)	(123,558,067)
Net decrease/(increase) in other assets		144,918	(264,480)
Net increase in other liabilities		1,003,905	894,021
<b>Net cash from/(used in) operating activities</b>		<b>10,119,808</b>	<b>(2,538,929)</b>
<b>Cash flows from/(used in) investing activities:</b>			
Acquisition of property and equipment	10	(3,080)	(2,745)
Acquisition of financial assets measured at amortised cost	9	(4,032,405)	(3,198,105)
Proceeds from financial assets measured at amortised cost	9	271,492	220,654
Acquisition of intangible assets	11	(1,531)	(2,238)
<b>Net cash used in investing activities</b>		<b>(3,765,524)</b>	<b>(2,982,434)</b>
<b>Cash flows from/(used in) financing activities:</b>			
Proceeds from interbank money market deposit	14	(139,005)	(12,995)
Proceeds from issue of debt securities		2,875,109	7,952,092
Proceeds from issue of subordinated liabilities		998,220	(2,963,534)
Repayment of debt securities		(5,744,331)	(824,860)
Dividends paid	20	(6,313)	(4,263)
Proceeds from capital increase	20	-	1,000,000
<b>Net cash from/(used in) financing activities</b>		<b>(2,016,320)</b>	<b>5,146,440</b>
Effects of exchange-rate changes on cash and cash equivalents		1,416,351	1,062,572
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,754,315</b>	<b>687,649</b>
Cash and cash equivalents at the beginning of the year		4,233,933	3,546,284
<b>Cash and cash equivalents at the end of the period</b>		<b>9,988,248</b>	<b>4,233,933</b>

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

# **TÜRKİYE İHRACAT KREDİ BANKASI AŞ**

## **NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

*(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)*

### **1 GENERAL INFORMATION**

Türkiye İhracat Kredi Bankası AŞ (the “Bank” or “Eximbank”) was established as Turkey’s “Official Export Credit Agency” on 25 March 1987 (transformed from “State Investment Bank”) as a development and investment bank and accordingly, the Bank does not accept deposits. The Bank’s head office is located at Saray Mahallesi, Ahmet Tevfik İleri Caddesi 19 Ümraniye İstanbul/Türkiye. As of 31 December 2019, the Bank has 2 regional directorates in Ankara and in İzmir, 13 branches and 5 liaison offices. As of 31 December 2019, the Bank has 740 employees (31 December 2018: 709 employees).

The Bank has been mandated to support foreign trade through diversification of the exported goods and services, by increasing the share of exporters and entrepreneurs in international trade, and to create new markets for the exported commodities, to provide exporters and overseas contractors with support to increase their competitiveness and to ensure a lower risk environment in international markets.

As a means of aiding export development services, the Bank provides loan, guarantee and insurance services in order to financially support export and foreign currency earning services. While performing the above mentioned operations, the Bank provides short, medium or long term, domestic and foreign currency lending funded by borrowings from domestic and foreign money and capital markets and from its own sources.

On the other hand, the Bank also performs fund management (treasury) operations related to its core banking operations. These operations are domestic and foreign currency capital market operations, domestic and foreign currency money market operations, foreign currency market operations, derivative transactions, all of which are approved by the Board of Directors.

The losses due to the political risks arising on loan, guarantee and insurance operations of the Bank, are transferred to the Undersecretariat of Treasury (“Turkish Treasury”) according to article 4/c of Act number 3332 that was appended by Act numbered 3659 and according to Act regarding the Public Financing and Debt Management, numbered 4749, dated 28 March 2002.

# TÜRKİYE İHRACAT KREDİ BANKASI AŞ

## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

### 2 BASIS OF PREPARATION

#### 2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

The Bank maintains its books of account and prepares its statutory financial statements in Turkish Lira (“TL”) in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), the Turkish Commercial Code and the Turkish Tax Legislation.

These financial statements have been prepared in accordance with IFRS. They were authorised for issue by the Bank’s Board of Directors on 28 February 2020.

In preparation of the financial statements of the Bank, the same accounting policies except than IFRS 16 and methods of computation have been followed as compared to the most recent annual financial statements as of 31 December 2019. Other new IFRS/IAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Bank.

#### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following assets and liabilities which are stated at their fair values if reliable measures are available: financial assets measured at fair value through profit or loss, derivative financial assets and liabilities and financial assets measured at fair value through other comprehensive income.

#### 2.3 Functional currency and presentation currency

These financial statements are presented in TL, which is the Bank’s functional currency. Except as indicated, the financial information presented in TL has been rounded to the nearest thousand.

#### 2.4 Accounting in hyperinflationary countries

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute (“TURKSTAT”). This, together with the sustained positive trend in quantitative factors, such as the stabilisation in capital and money markets, decrease in interest rates and the appreciation of TL against the USD and other hard currencies have been taken into consideration to categorise Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006.

#### 2.5 Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

# TÜRKİYE İHRACAT KREDİ BANKASI AŞ

## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

### 2 BASIS OF PREPARATION (continued)

#### 2.5 Use of estimates and judgments (continued)

In particular, information about significant areas at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4 – Derivative instruments held for risk management
- Note 7 – Derivative financial assets and liabilities
- Note 8 – Loans and advances
- Note 18 – Other liabilities and provisions
- Note 13 – Other assets
- Note 6 – Cash and due from banks

#### 2.6. Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements as at 31 December 2019 are consistent with those followed in the preparation of the financial statements of the prior year except for IFRS 16 Leases (“IFRS 16”) as explained below.

In the accompanying financial statements, the Bank has adopted IFRS 16, effective for annual periods beginning on or after 1 January 2019, for the first time.

##### *Standards issued but not yet effective and not early adopted*

A number of new standards and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Bank has not early adopted are as follows.

##### **The revised Conceptual Framework (Version 2018)**

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

##### **Amendments to IAS 1 and IAS 8 - Definition of Material**

In October 2018, IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of ‘material’ and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amended “definition of material” was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information. In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of the amendments to IAS 1 and IAS 8.



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**2 BASIS OF PREPARATION** *(continued)*

**2.6 Changes in accounting policies** *(continued)*

*Standards issued but not yet effective and not early adopted* *(continued)*

**Amendments to IFRS 3 - Definition of a Business**

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With this amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition of substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020; with earlier application permitted.

The Bank does not expect that application of these amendments to IFRS 3 will have significant impact on its financial statements.

**Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)**

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are:

- pre-replacement issues—issues affecting financial reporting in the period before the reform; and
- replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:

- (a) The highly probable requirement;
- (b) Prospective assessments;
- (c) IAS 39 retrospective assessment; and
- (d) Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by *Interest Rate Benchmark Reform*.

The Bank shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

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**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently by the Bank to prior periods presented in these financial statements except for the impact of transition to IFRS 16 as of 1 January 2019.

**3.1 Foreign currency**

*i) Foreign currency transactions*

Transactions are recorded in TL, which represents the Bank’s functional currency. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss and other comprehensive income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Bank for foreign currency translation are as follows:

	<b>EUR / TL</b>	<b>USD / TL</b>
31 December 2019	6.6548	5.9407
31 December 2018	6.0404	5.2801

*ii) Foreign operations*

The assets and liabilities are translated into presentation currency of the Bank at the rate of exchange ruling at the reporting date.

**3.2 Interest income and expense**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points 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.

Interest income and expense presented in the statement of profit or loss and other comprehensive income (OCI) include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for financial assets measured at fair value through other comprehensive income calculated on an effective interest basis,

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.3 Fees and commission and premium income and expense**

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognised as the related services are performed in accordance with IFRS 15 Revenue from contracts with customers. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

*Premium income and expense*

Insurance programs of the Bank are composed of two schemes: short-term export credit insurance and medium and long-term export credit insurance. Premium income of the Bank under these two schemes represents premiums on policies written during the year, net of cancellations.

In addition, since commencement of the insurance facility, the Bank has sought to reinsure the major portion (currently 60%) of its underwritten short-term commercial risks on the basis of a quota-share treaty concluded with a group of domestic and overseas reinsurance companies. Accordingly, expenses include the premiums paid to reinsurance companies. Premium income and expense representing reinsurer’s share of the premium are recognised in the financial statements on accrual basis over the period of related policy.

*Reinsurance commissions*

Reinsurance commission income received in relation to ceded premiums is recognised on an accrual basis.

**3.4 Net trading income**

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes, except for the unrealised gains of financial assets measured at fair value through other comprehensive income.

**3.5 Dividends**

Dividend income is recognised when the right to receive the income is established.

**3.6 Leases**

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognising finance leases in the balance sheet whereas not recognising operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. This standard is applied with modified retrospective approach recognising the cumulative effect of initially applying the standard at the date of initial application. In this context, comparative information is not restated. A lease liability and a right-of-use asset are recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17. That lease liability is measured at the present value of the remaining lease payments, discounted using the Bank’s incremental borrowing rate at the date of initial application. Besides, that right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Leases with a period equal or less than twelve months are evaluated in the scope of the exception given by the standard and payments made according to related contracts are still being accounted as expense in the period of the payments.

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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6 Leases (continued)**

**Transition disclosures of IFRS 16**

	<b>31 December 2018</b>	<b>IFRS 16 Impact</b>	<b>1 January 2019</b>
Property and equipment <sup>(1), (2)</sup>	5,807	20,254	26,061
Other liabilities and provisions <sup>(*)</sup>	-	20,254	20,254

(1) For leases classified as operating leases in accordance with IAS 17, TL 20,254 thousand lease liabilities and right-of-use assets amount has been reflected to financial statements as of 1 January 2019 in accordance with IFRS 16.

(2) As of 1 January 2019, the weighted average of the alternative funding interest rates applied to TL and USD lease liabilities are 24.05% and 8.50%, respectively.

(\*) Obligations under lease liabilities are presented in other liabilities and provisions in financial statements.

**3.7 Income tax expense**

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3<sup>rd</sup> Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states “The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520”, the exemption from Corporation Tax continues. Accordingly, current tax and deferred tax are not recognised in these financial statements.

**3.8 Explanations on forward transactions, options and derivative instruments**

The Bank uses derivative financial instruments in order to avoid exposure to foreign currency and interest rate risks.

As of the balance sheet date, there are outstanding currency and interest rate swap purchase and sales contracts and forward transactions in TL and foreign currency.

Derivatives are initially recorded with their fair values and related transaction costs as of the contract date are recorded in profit or loss. In the following periods of initial reporting, they are measured at their fair values. The result of this assessment, offsetting debit and credits stemming from each contract are reflected to the financial statements as a contract-based single asset and liability. The method of accounting gain or loss changes according to related derivative transaction whether to be held for cash flow hedges or not and to the content of hedge accounting.

**a.) Financial assets measured at fair value through profit or loss**

**a.1.) Derivative financial assets**

Derivative financial instruments other than derivative instruments intended for the fair value hedging and cash flow hedge purposes of the Bank are accounted for as "trading purpose", economically providing effective protection against risks for the Bank. Liabilities and receivables arising from derivative transactions are recorded in off-balance sheet accounts at contractual amounts. Derivative financial instruments are measured at fair value in subsequent periods and if the fair value is positive, they are classified under "derivative financial assets measured at fair value through profit or loss". If fair value is negative derivative transactions are classified under “derivative financial liabilities measured at fair value through profit or loss”. After valuation, differences of changes in fair value are reflected in the statement of profit or loss.

**a.2.) Derivative financial assets held for hedging purpose**

The Bank notifies in written the relationship between hedging instrument and related account, risk management aims of hedge and strategies and the methods using to measure of the hedge effectiveness.

The Bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.8 Explanations on forward transactions, options and derivative instruments** *(continued)*

**a.2.) Derivative financial assets held for hedging purpose** *(continued)*

Changes in fair values of derivative transactions under fair value hedges are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Gains/Losses on derivative financial instruments” account. In the statement of financial position, change in fair value of hedged asset or liability during the hedge accounting to be effective is shown with the related asset or liability. In case of inferring hedge accounting, corrections made to the value of hedge account using straight-line amortization method within the days to maturity are reflected to “Income/losses from derivative financial instruments” account in the statement of profit or loss.

**b.) Financial assets measured at fair value through other comprehensive income**

**b.1.) Derivative financial instruments held for hedging**

The Bank hedges its cash flow risk arising from floating-rate liabilities in foreign currency and TL by cross-currency swaps. In this context, the fair value changes of the effective portion of the hedging instruments are accounted under the “hedging reserves” account within equity. In the period in which the cash flows affect the statement of profit or loss for the hedged item, the hedging instrument relating to the profit/loss is extracted from equity and recognized in the statement of profit or loss.

The hedge accounting is discontinued when the hedging instrument expires, is exercised, sold or no longer effective. While expiring, sale, discontinuing cash flow hedge accounting or when no longer effective, the cumulative gains/losses recognised in shareholders’ equity and presented under hedging reserves are continued to be kept in this account. When the cash flows of hedged item incur, the gain/losses accounted for under shareholders’ equity are transferred to statement of profit or loss.

Effectiveness tests are performed at the beginning of the hedge accounting period and at each reporting period. The hedge accounting is applied as long as the test results are between the range of 80%-125% of effectiveness.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Bank continues to apply hedge accounting in accordance with IAS 39 in this context.

**3.9 Explanations on financial assets**

The Bank recognises its financial assets as “Financial Assets Measured at Fair Value Through Profit/Loss”, “Financial Assets Measured at Fair Value Through Other Comprehensive Income” or “Financial Assets Measured at Amortized Cost”.

At initial recognition, financial assets are measured at fair value. In the case if financial assets are not measured at fair value through profit or loss, transaction costs are added or deducted to/from their fair value. During the initial recognition of a financial asset into the financial statements, business model determined by the Bank management and the nature of contractual cash flows of the financial asset are taken into consideration.

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.9 Explanations on financial assets** *(continued)*

**Classification and measurement of financial instruments**

The classification of financial instruments at the time of initial recognition depends on the characteristics of the relevant business model and contractual cash flows used for management.

In accordance with IFRS 9, if a financial asset is held under a business model that is intended to collect a business model or contractual cash flows for the purpose of collecting contractual cash flows and that is intended to sell financial assets, such financial asset is classified based on the characteristics of the contractual cash flows.

During the transition period of IFRS 9, the Bank conducted the test of whether the entire loan portfolio’s contractual cash flows are comprised only of interest and principal and all of the Bank’s portfolio is recognized under “Financial assets measured at amortised cost”.

**Business model Evaluation**

In accordance with IFRS 9, the business model is determined at a level that demonstrates how the financial asset groups are managed together to achieve a specific management objective.

***Measurement categories of financial assets and liabilities***

As of the effective date of IFRS 9 standard; 1 January 2018, the Bank started to classify its’ financial assets based on the business model it uses to manage these assets. Three main categories to classify financial assets are:

- Financial assets at fair value through profit or loss (“FVPL”)
- Financial assets at fair value through other comprehensive income (“FVOCI”)
- Financial assets measured at amortized cost

**Financial assets measured at fair value through profit/loss**

Financial assets measured at fair value through profit or loss are financial assets that are managed with the business model other than the business model that aims to collect and sell the contractual cash flows and the contractual terms of the financial assets, do not result in cash flows that include interest payments arising only from the principal and principal balance at specific dates; are financial assets that are acquired in order to generate profits from fluctuations in prices and similar factors in the short term in the market or are part of a portfolio aimed at achieving profit in the short term regardless of the reason for the acquisition.

Financial assets measured at fair value through profit or loss are initially recognized at cost in the financial statements. All regular way purchases and sales of financial assets are recognized and derecognized at the settlement date.

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.9 Explanations on financial assets** *(continued)*

**Financial assets measured at fair value through profit/loss** *(continued)*

The government bonds and treasury bills recognized under financial assets measured at fair value through profit/loss which are traded on Borsa İstanbul AŞ (“BİST”) are valued with weighted average prices settled on BİST as of the reporting date; and those government bonds and treasury bills traded on BİST but which are not subject to trading on BİST as of the reporting date are valued with weighted average prices at the latest trading date.

The financial assets classified under trading financial assets and whose fair values cannot be measured reliably are carried at amortized cost using the “effective yield method”. The difference between the purchase cost and the amortized cost at the selling date is recorded as interest income.

If the selling price of a financial asset measured at fair value through profit/loss is above its amortized cost as of the sale date, the positive difference between the selling price and the amortized cost is recognized as income under trading gains on securities and if the selling price of a trading security is lower than its amortized cost as of the sale date, the negative difference between the selling price and the amortized cost is recognized as expense under trading expense in the statement of profit or loss.

As of 31 December 2019, the Bank does not have any financial asset and liabilities at fair value through profit or loss.

**Financial assets at fair value through other comprehensive income**

In accordance with IFRS 9, if all of the following conditions are met, the related financial assets are measured by reflecting the fair value difference in other comprehensive income.

- Management of financial assets through a business model aimed at collecting and selling their contractual cash flows and
- The contractual terms of the financial asset leading to cash flows that include interest payments caused by the principal and principal balance on certain dates.

Financial Assets Measured at Fair Value Through Other Comprehensive Income are valued at fair value in the periods subsequent to their acquisition. If the underlying fair value is not realized in the active market conditions, it is accepted that the fair value is not determined reliably and the fair value is determined by using the discounted value of other comprehensive income and reflected at amortized cost, are accounted for by rediscount.

Difference between the fair value of financial assets at fair value through other comprehensive income and their amortized costs; unrealized profits and losses, is not shown on the periods’ of profit or loss statement until the value of the financial asset is collected, the asset is sold or disposed of and it is followed under the account “other comprehensive income and expenses to be reclassified to profit or loss” in the shareholder’s equity section. When the values of these marketable securities are collected or when they are disposed of, the accumulated fair value differences reflected in the shareholder’s equity before are transferred to the profit or loss statement.

However, the Bank may, at initial recognition, irrevocably choose the method of reflecting changes in fair value to other comprehensive income for specific investments on equity instruments that would normally be measured at fair value through profit or loss.

Marketable securities classified as financial assets at fair value through other comprehensive income which represent share in capital are accounted at their fair value. As an exception, the cost may be an appropriate estimation method for the determination of fair value. This is only possible when there is enough recent information on the measurement of fair value or when the fair value can be measured by more than one method and it is certain that one of these methods represent the fair value estimation in the best way.

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.9 Explanations on financial assets** *(continued)*

**Financial assets at fair value through other comprehensive income** *(continued)*

Securities classified as irrevocable under other comprehensive income and financial assets of fair value are as follows:

- Garanti Faktoring AŞ
- Kredi Garanti Fonu AŞ
- Borsa İstanbul AŞ

**Financial assets measured at amortized cost**

The Bank may keep its financial assets at amortized cost as long as the following conditions are met.

- Retention of the financial asset in the context of a business model aimed at collecting contractual cash flows
- The contractual terms of the financial asset lead to cash flows that include interest payments on principal and principal balances on certain dates.

Financial assets measured at amortized cost are initially recorded at acquisition cost values with the addition of transaction costs and are measured at amortized cost using effective interest rate method after being recorded.

Interest income obtained from financial assets measured at amortised cost is accounted in statement of profit or loss.

Loans are financial assets that have fixed or determinable payments and are not quoted in an active market. These loans are initially recognized at cost of acquisition with the addition of transaction costs, and are measured at amortized cost using “the effective interest rate (internal rate of return) method” after their recognition.

The Bank has been tested “whether contractual cash flows consist of only interest and principal or not” in its the all loan portfolio and after all portfolio has passed the test, the Bank has started to measure all the loans at amortised cost.

**Explanations on impairment of financial assets**

The Bank recognizes provisions for impairment in accordance with IFRS 9 requirements. Equity instruments are not subject to impairment assessment.

At each reporting date, it shall be assessed whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, it shall be used the change in the risk of a default occurring for the financial instrument.



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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.9 Explanations on financial assets** *(continued)*

**Explanations on expected credit losses**

The expected credit losses are estimated to be unbiased, weighted according to probabilities, and include information that can be supported about past events, current conditions and future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information.

Probability of default (PD): It expresses the probability of default of credit in a certain period of time. The PD and LGD parameters used in the calculation of the expected credit loss are calculated as including both current and expected loop changes as instant PD (point in time, PIT). The Bank uses two different default probability values to calculate expected credit losses in accordance with IFRS 9.

- 12 month default probability: Estimation of default probability within 12 months after the reporting date,
- Lifetime default probability: Estimation of default probability over the expected life of the financial instrument.

Lost Given Default (LGD): If the borrower is in default, it refers to the economic loss caused by the loan. The ratio is expressed as.

Exposure at Default (EAD): Represents the outstanding balance of cash loans as of the date of the report. In non-cash loans and commitments, it is the value calculated by applying the credit conversion rate.

Financial assets are divided into the following three categories based on the increase in the credit risks observed since the initial acquisition of financial assets:

**12-month expected credit losses (Stage 1):** For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition this instruments are impaired at an amount equal to 12-month expected credit losses (resulting from the risk of default within the next 12 months).

**Lifetime expected credit losses for non-impaired assets (Stage 2):** Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

**Lifetime expected credit losses for credit-impaired financial assets (Stage 3):** Includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

This general model is applied to all instruments within the scope of IFRS 9 impairment.

**Measurement of expected credit losses**

In practice, for exposures classified in stage 1 and stage 2, expected credit losses are measured as the product of the probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”), discounted at the effective interest rate of the exposure (“EIR”). They result from the risk of default within the next 12 months (stage 1), or from the risk of default over the maturity of the facility (stage 2).

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.9 Explanations on financial assets** *(continued)*

**Measurement of expected credit losses** *(continued)*

For exposures classified in stage 3, expected credit losses are measured as the value, discounted at the effective interest rate, of all cash shortfalls over the life of the financial instrument. Cash shortfalls represent the difference between the cash-flows that are due in accordance with the contract, and the cash-flows that are expected to be received.

*Maturity*

All contractual terms of the financial instrument (including prepayment, extension and similar options) over the life of the instrument are taken into account.

*Probability of Default (PD)*

The Probability of Default is an estimate of the likelihood of default over a given time horizon. The measurement of expected credit losses requires the estimation of both 1 year probabilities of default and lifetime probabilities of default.

*Loss Given Default (LGD)*

The Loss Given Default is the difference between the contractual cash-flows and the expected cash-flows. The LGD is expressed as a percentage of the EAD.

*Exposure at Default (EAD)*

The Exposure at Default of an instrument is the anticipated outstanding amount owed by the obligor at the time of default.

*Forward looking*

The amount of expected credit losses is measured on the basis of probability-weighted scenarios, in view of past events, current conditions and reasonable and supportable economic forecasts.

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.9 Explanations on financial assets** *(continued)*

**Measurement of expected credit losses** *(continued)*

*Significant increase in credit risk*

In the event of a significant increase in credit risk, the financial asset is transferred to Stage 2.

Qualitative considerations taken into determining the significant increase in the credit risk of a financial asset as follows;

- Delay days as of the reporting date is 30 or more,
- Refinancing and restructuring the credit account,
- Loans under close monitoring.

*Definition of default*

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full;
- the borrower is more than 90 days past due on any material credit obligation to the Bank.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or

- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

**3.10 Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.11 Property and equipment**

*Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

*Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

*Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful life for the current and comparative periods is as follows:

	<b>Years</b>
Buildings	50 years
Vehicles	5 years
Other tangible assets	1 - 50 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reviewed at each financial period end and adjusted if appropriate.

**3.12 Intangible assets**

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to five years.

**3.13 Investment property**

Investment properties consist of properties held for obtaining lease income and/or held for recognizing fair value increase. Investment properties are accounted with the cost amount after deduction of accumulated depreciation and permanent impairment losses. Investment properties are depreciated in accordance with the useful life principles with straight-line depreciation method. Gains or losses rising from the disposal or out of usage of the investment property, shall be determined as the difference between the net income from the sale and the carrying amount of the asset and shall be recognized in profit or loss in the period of disposal or out of usage.

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**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

*(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)*

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.14 Assets held for sale**

An asset (or a disposal group) classified as asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

**3.15 Impairment of non-financial assets**

The carrying amounts of the Bank’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of other assets, impairment losses recognised in prior periods is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**3.16 Funds borrowed and subordinated liabilities**

Funds borrowed and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

**3.17 Debt securities**

Debt securities issued are carried at “amortized cost” using the “effective interest method”, except where the Bank chooses to carry the liabilities at fair value through profit or loss. The Bank has no securities issued at fair value through profit / loss.

**3.18 Provisions**

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

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**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

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**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**3.19 Employee benefits**

*Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee’s probable future liability arising from the retirement. IAS 19 (2011) (“Employee Benefits”) requires actuarial valuation methods to be developed to estimate the bank’s obligation under defined employee plans. IAS 19 (2011) (“Employee Benefits”) has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

*Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The Bank does not have any internally set defined contribution plan.

**3.20 Events after the reporting period**

Events after the reporting period that provide additional information about the Bank’s position at the reporting dates (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

# TÜRKİYE İHRACAT KREDİ BANKASI AŞ

## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

*(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)*

### 4 FINANCIAL RISK MANAGEMENT

#### (a) Strategy in using financial instruments

As of 31 December 2019, the loan portfolio of the Bank constitutes 88% (31 December 2018: 93%) of total assets. In short, medium and long term lending (except for funded loans and country loans), the Bank is taking the risk of the Turkish banking system, however medium-to-long term country loans are under the political risk guarantee of the Turkish Treasury.

The Board of Directors of the Bank sets risk limits and parameters for the transactions having significant implications for the operations of the Bank.

The objective of the Bank’s asset and liability management and use of financial instruments is to limit the Bank’s exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy.

#### (b) Credit risk

According to article numbered 25 of the decree (regulating the “Articles of Association” of the Bank) of the Council of Ministers dated 17 June 1987; the scope of the annual operations of the Bank is determined by the Bank’s Annual Program that is approved by Supreme Advisory and Credit Guidance Committee (“SCLGC”). SCLGC is chaired by the Prime Minister or State Minister appointed by the Prime Minister and includes executive managers. The Board of Directors of the Bank is authorised to allocate the risk limits of loan, guarantee and insurance premium to country, sector and commodity Banks, within the principles set by the Annual Program.

In accordance with the collateralisation policy of the Bank, the Bank is taking the risks of short term loans to domestic banks. The cash and non-cash limits of domestic banks for short term and medium and long term credits are approved by the Board of Directors.

The Board of Directors fulfilled authorisations for the determination of loan limits for a person or legal entity, limited with only the loans which were given with respect to specified guaranties, within the framework of the 5<sup>th</sup> item in the Regulation related with Loan Transactions.

The risk limits of the foreign country loans are determined by annual programs which are approved by SCLGC within the foreign economic policy.

Country loans are granted with the approval of the Board of Directors and the approval of the Minister and the Council of Ministers; according to article 10 of Act number 4749 dated 28 March 2002 related to the regulation of Public Finance and Debt Management.

The fundamental collateral of the foreign country loans are the government guarantee of the counter country and the guarantee of banks that the Bank accepts as accredited.

The limit of a country is restricted by both “maximum limit that can be undertaken” and “maximum amount that can be used annually”.

Each year major portion of the commercial and politic risks emerged in Short Term Export Insurance Program is transferred to international reinsurance companies under renewed agreements.

According to the Article 4/C of Act number 3332 that was appended by Act number 3659 and Act regarding the regulation of Public Financing and Debt Management dated 28 March 2002, the losses incurred by the Bank in its credit, guarantee and insurance transactions as a result of political risks are covered by the Turkish Treasury.

The Bank reviews reports of OECD country risk ratings, reports of the members of the International Union of Credit and Investment Insurers, reports of independent credit rating institutions and the financial statements of the banks risks of which are undertaken during the assessment and review of the loans granted. In addition, country reports and short term country risk classifications prepared within the Bank are also utilised.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

**4 FINANCIAL RISK MANAGEMENT** (continued)

**(b) Credit risk** (continued)

The risks and limits of companies and banks are followed by both loan and risk departments on a weekly and monthly basis.

In addition, all of the foreign exchange denominated operations and other derivative transactions of the Bank are carried out under the limits approved by the Board of Directors.

Business and geographic distribution of the loan risks runs parallel with the export composition of Turkey and this is followed up by the Bank regularly.

**Impairment and provisioning policies**

The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence comprises observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank considers evidence of impairment for loans and advances at a specific asset level.

The classification of the loan portfolio of the Bank under the following categories is as follows:

	31 December 2019		31 December 2018	
	Corporate loans	Personnel loans	Corporate loans	Personnel Loans
Neither past due nor impaired	141,697,314	10,011	129,056,901	15,407
Past due but not impaired	595,045	-	625,640	-
Individually impaired	506,578	20	342,508	-
<b>Total loans and advances</b>	<b>142,798,937</b>	<b>10,031</b>	<b>130,025,049</b>	<b>15,407</b>
Expected credit losses- Stage 1	(38,555)	(4)	(33,225)	-
Expected credit losses- Stage 2	(5,034)	-	(1,826)	-
Expected credit losses- Stage 3	(423,285)	(18)	(335,354)	-
<b>Net loans and advances</b>	<b>142,332,063</b>	<b>10,009</b>	<b>129,654,644</b>	<b>15,407</b>

As of 31 December 2019 and 31 December 2018, loans and advances that are past due but not impaired are as follows:

	31 December 2019	31 December 2018
Past due up to 30 days	77,891	-
Past due 31-60 days	359,690	516,931
Past due 61-90 days	157,464	108,709
<b>Total loans and advances that are past due but not impaired</b>	<b>595,045</b>	<b>625,640</b>



**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

**4 FINANCIAL RISK MANAGEMENT** (continued)

**(b) Credit risk** (continued)

In line with the mission of the Bank, the Bank grants loans only to corporate customers either directly or indirectly through banks and financial institutions and follows its credit portfolio under categories specified below:

	31 December 2019		31 December 2018	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Standard loans and advances	139,422,849	10,011	129,003,905	15,407
Loans and advances under close monitoring <sup>(1)</sup>	2,869,510	-	678,636	-
Impaired loans and advances	506,578	20	342,508	-
<b>Total loans and advances</b>	<b>142,798,937</b>	<b>10,031</b>	<b>130,025,049</b>	<b>15,407</b>
Expected credit losses- Stage 1	(38,555)	(4)	(33,225)	-
Expected credit losses- Stage 2	(5,034)	-	(1,826)	-
Expected credit losses- Stage 3	(423,285)	(18)	(335,354)	-
<b>Net loans and advances</b>	<b>142,332,063</b>	<b>10,009</b>	<b>129,654,644</b>	<b>15,407</b>

<sup>(1)</sup> As of 31 December 2019, loans and advances under close monitoring includes loans amounting to TL 2,274,465 (31 December 2018: TL 52,996) that were not past due but had been extended to customers whose other loans are under close monitoring.

As of 31 December 2019 and 31 December 2018 the fair value of collaterals held for total loans and advances are as follows:

	31 December 2019		31 December 2018	
	Corporate Loans	Personnel loans	Corporate loans	Personnel Loans
Loans guaranteed by other banks	129,400,500	-	118,450,393	-
Loans guaranteed by a third party	-	10,031	-	15,407
<b>Total</b>	<b>129,400,500</b>	<b>10,031</b>	<b>118,450,393</b>	<b>15,407</b>
Unsecured exposures <sup>(1)</sup>	13,398,438	-	11,574,656	-
<b>Total loans and advances</b>	<b>142,798,938</b>	<b>10,031</b>	<b>130,025,049</b>	<b>15,407</b>

<sup>(1)</sup> Unsecured exposures represent loans and advances granted to domestic banks, foreign banks and other financial institutions and individually impaired loans.

As of 31 December 2019, the Bank does not have repossessed collateral (31 December 2018: None).

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
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*(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)*

**4 FINANCIAL RISK MANAGEMENT (continued)**

**(b) Credit risk (continued)**

**Bank’s credit rating policy**

*The risk assessment of banks and other financial institutions*

The Bank requests independent auditor’s report in addition to financial statements and related notes and net foreign currency position from banks and other financial institutions on a quarterly basis.

Financial statement information derived from the independent audit or review reports of banks and other financial institutions is recorded into a database in a standard format and percentage changes and ratios related with the capital adequacy, asset quality, liquidity and profitability of the banks and other financial institutions are calculated. In addition, the standard ratios for capital adequacy, asset quality, liquidity and profitability ratios are redefined periodically considering the operations of the banks and acceptable intervals for standard ratios are defined.

In accordance with the standard ratios, the risk ratings of banks are defined by assigning grades from 1 to 4 to banks and other financial institutions. Banks with grade 1 consist of the lowest risk profile of banks and financial institutions and banks with grade 4 consist of the highest risk profile of banks and financial institutions.

In accordance with the risk concentration of the banks and other financial institutions, the final risk is determined by considering qualitative factors such as shareholding structure, group companies, credit ratings from international credit rating institutions, quality of management and also information obtained from media.

As of 31 December 2019, loans granted by the Bank to banks and other financial institutions amount to TL 17,778,906 (31 December 2018: TL 15,404,091). As of 31 December 2019 and 31 December 2018, the concentration level of the loans and advances to banks and other financial institutions which are neither past due nor impaired in accordance with the defined financial analysis of the Bank is as follows:

		<b>31 December 2019</b>	<b>31 December 2018</b>
	<b>Rating class</b>	<b>Concentration level (%)</b>	<b>Concentration level (%)</b>
Low	1-2	52	58
Medium	3	45	40
High	4	3	2

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*(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)*

**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**(b) Credit risk** *(continued)*

*The risk assessment of the companies:*

In the risk evaluation of the companies, the Bank obtains financial and organisational information both from the companies and also from various sources (such as Central Bank of the Republic of Turkey (“CBRT”) records, Trade Registry Gazette, Chamber of Trade records, information obtained from the Undersecretariat of Foreign Trade, banks and companies operating in the same sector) and uses investigation and verification methods. In addition to the analysis of the last three year financial statements of the companies, the Bank also analyses the current status of the sectors in which the companies operate, economic and political changes affecting the target sectors in the international markets, the advantages and disadvantages of the companies compared to their rival companies operating in or outside Turkey. In case the company is a member of a group of companies not organised as a holding company, the developments that affect the Bank’s operations are monitored and outstanding bank debts of the Bank are also assessed and company analysis reports are prepared taking into account the group risk as well. The Bank does not utilise a separate rating system regarding the risk assessment of the companies.

As of 31 December 2019 and 31 December 2018, the analysis of credit limits for top 60 corporate customers constituting approximately 45% and 41%, respectively of total loans to corporate customers amounting to TL 64,646,536 (31 December 2018: TL 57,904,365) and whose loans are neither past due nor impaired at 31 December 2019 and 31 December 2018 is as follows;

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Credit limits (TL)</b>	<b>Concentration level (%)</b>	<b>Concentration level (%)</b>
0 - 20,000	-	-
20,000 - 40,000	-	-
40,000 - 60,000	-	-
Over 60,000	100.00	100.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(b) Credit risk (continued)**

The Bank’s maximum exposure to credit risk as of 31 December 2019 and 31 December 2018:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Credit risk exposures relating to on-balance sheet assets:</b>		
Due from banks	9,988,197	4,234,578
Loans and advances to		
Domestic banks and other financial institutions	12,253,033	10,977,261
Foreign banks and other financial institutions	5,525,873	4,426,830
Corporate customers other than banks and financial institutions and personnel	124,563,166	114,265,960
Derivative financial assets	6,327	443
Derivative assets held for risk management	1,405,430	711,768
Investment securities		
Financial assets measured at amortized cost	7,089,499	3,249,301
<b>Credit risk exposures relating to off-balance sheet items:</b>		
Financial guarantees	10,891,326	9,083,093
<b>Total</b>	<b>171,722,851</b>	<b>146,949,234</b>

As of 31 December 2019 and 31 December 2018, financial assets measured at amortized cost are issued by the Turkish Treasury, the controlling shareholder of the Bank.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(b) Credit risk (continued)**

As of 31 December 2019 and 31 December 2018, the geographical distribution of the on-balance sheet assets exposed to credit risk:

	Turkey	EU countries	OECD countries <sup>(1)</sup>	USA	Other Countries	Total
Cash and due from banks	8,930,493	954,025	1,324	102,376	-	9,988,218
Loans and advances to						
- Domestic banks and other financial institutions	12,249,813	-	-	-	-	12,249,813
- Foreign banks and other financial institutions	-	-	-	-	4,997,081	4,997,081
- Corporate customers and personnel	125,095,178	-	-	-	-	125,095,178
Derivative financial assets	-	6,327	-	-	-	6,327
Derivative assets held for risk management	-	1,405,430	-	-	-	1,405,430
Investment securities						
- Financial assets measured at amortized cost	7,089,499	-	-	-	-	7,089,499
<b>As of 31 December 2019</b>	<b>153,364,983</b>	<b>2,365,782</b>	<b>1,324</b>	<b>102,376</b>	<b>4,997,081</b>	<b>160,831,546</b>

<sup>(1)</sup> The OECD countries except for EU countries, Canada and USA.

	Turkey	EU countries	OECD countries <sup>(1)</sup>	USA	Other Countries	Total
Cash and due from banks	525,344	1,186,202	2,110	2,520,951	-	4,234,607
Loans and advances to						
- Domestic banks and other financial institutions	10,977,261	-	-	-	-	10,977,261
- Foreign banks and other financial institutions	-	-	-	-	4,426,830	4,426,830
- Corporate customers and personnel	114,265,960	-	-	-	-	114,265,960
Derivative financial assets	-	443	-	-	-	443
Derivative assets held for risk management	-	711,768	-	-	-	711,768
Investment securities						
- Financial assets measured at amortized cost	3,249,301	-	-	-	-	3,249,301
<b>As of 31 December 2018</b>	<b>129,017,866</b>	<b>1,898,413</b>	<b>2,110</b>	<b>2,520,951</b>	<b>4,426,830</b>	<b>137,866,170</b>

<sup>(1)</sup> The OECD countries except for EU countries, Canada and USA.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(c) Market risk**

Market risk refers to the possibility of loss that may arise due to interest, exchange rate and price changes arising from fluctuations in the financial markets in the positions of the Bank on its balance sheet and off-balance sheet accounts and consequent changes in the Bank income / expense item and equity profitability. In order to hedge against the market risk that the Bank may be exposed to as a result of financial activities, all Turkish Lira (TL) and foreign currency securities portfolio for trading purposes are evaluated on a daily basis with the current rates in the market. In order to limit the possible loss that may arise from market risk, the maximum amount of transactions that can be carried per day, including securities transactions, the maximum amount of transactions and the limit for termination of damages are applied within the limits set by the Board of Directors for all trading transactions. “Exchange Rate” and “Interest Rate” are calculated based on the “Standard Method and Market Risk Measurement Method” published by the BRSA in the calculation of the market risk exposed to the Bank in the Capital Adequacy Analysis Form.

Derivative transactions are initially measured at fair value and transaction costs that are attributable to them are recognized in profit or loss as they are incurred. They are valued with their fair values in subsequent periods. This valuation result is reflected in the financial statements as a single asset or liability on a contract basis by netting off the receivables and payables arising from each contract within their fair values. The method of accounting for the resulting profit or loss varies depending on whether the derivative is intended for hedging or not and the content of the hedged asset.

		<b>Risk Weighted Amounts</b>
	Outright Products	
1	Interest rate risk (general and specific)	85,638
2	Stock risk (general and specific)	-
3	Foreign exchange risk	57,325
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitizations	-
9	<b>Total</b>	<b>142,963</b>

**(d) Currency risk**

Foreign currency denominated assets and liabilities, together with purchase and sale commitments give rise to foreign exchange exposure.

The Bank’s foreign exchange position is followed daily, and the transactions are performed in accordance with the expectations in the market and within the limits determined by the Risk Management Principles approved by the Board of Directors of the Bank.

The Bank attempts to maintain a square position in foreign exchange through its on-balance sheet and off-balance sheet activities. As part of its strategy to manage the impact of exchange rates and to hedge against foreign exchange exposure, the Bank enters into swap transactions. Short-term currency swap transactions, carried out during the year to meet exporters’ foreign exchange loan demand and to manage the Bank’s foreign currency risk.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Included in the table are the Bank’s assets, liabilities and equity at carrying amounts, categorised by currency.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(d) Currency risk (continued)**

The table below summarises the Bank’s exposure to foreign currency exchange rate risk as monitored by management at 31 December 2019 and 31 December 2018.

	31 December 2019			Total
	USD	EUR	Other	
Cash and due from banks	2,062,967	7,561,068	24,706	9,648,741
Derivative financial assets	765	56	-	821
Derivative assets held for risk management	1,405,430	-	-	1,405,430
Loans and advances	49,367,617	84,413,705	287,654	134,068,976
Investment securities				
- Financial assets measured at fair value through other comprehensive income	-	-	-	-
- Financial assets measured at amortized cost	1,059,423	3,041,179	-	4,100,602
Property and equipment and intangible assets	-	-	-	-
Investment property	-	-	-	-
Other assets	67,429	67,136	6,120	140,685
<b>Total assets</b>	<b>53,963,631</b>	<b>95,083,144</b>	<b>318,480</b>	<b>149,365,255</b>
Funds borrowed	55,229,561	71,870,280	210,642	127,310,483
Subordinated liabilities	-	1,029,725	-	1,029,725
Debt securities in issue	18,527,877	-	-	18,527,877
Interbank money market deposits	-	-	-	-
Derivative financial liabilities	28,239	3,494	33	31,766
Derivative liabilities held for risk management	75,183	-	-	75,183
Other liabilities	1,733,749	661,260	6,052	2,401,061
Reserve for employment termination benefits	-	-	-	-
Equity	-	-	-	-
<b>Total liabilities and equity</b>	<b>75,594,609</b>	<b>73,564,759</b>	<b>216,727</b>	<b>149,376,095</b>
<b>Net balance sheet position</b>	<b>(21,630,978)</b>	<b>21,518,385</b>	<b>101,753</b>	<b>(10,840)</b>
<b>Off balance sheet derivative instruments net notional position</b>	<b>22,509,213</b>	<b>(21,453,035)</b>	<b>(102,769)</b>	<b>953,409</b>

At 31 December 2019, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 5.9407 = US Dollar 1 (“USD”) and TL 6.6548= EUR 1.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(d) Currency risk (continued)**

	31 December 2018			
	USD	EUR	Other	Total
Cash and due from banks	3,610,101	259,549	23,057	3,892,707
Derivative financial assets	191	170	-	361
Derivative assets held for risk management	711,768	-	-	711,768
Loans and advances	48,977,723	73,869,192	241,712	123,088,627
Investment securities				
- Financial assets measured at fair value through other comprehensive income	-	-	-	-
- Financial assets measured at amortized cost	-	-	-	-
Property and equipment and intangible assets	-	-	-	-
Investment property	-	-	-	-
Other assets	384,583	286,165	2,152	672,900
<b>Total assets</b>	<b>53,684,366</b>	<b>74,415,076</b>	<b>266,921</b>	<b>128,366,363</b>
Funds borrowed	49,016,864	59,525,888	188,196	108,730,948
Subordinated liabilities	-	-	-	-
Debt securities in issue	17,178,988	-	-	17,178,988
Interbank money market deposits	-	-	-	-
Derivative financial liabilities	4,241	3,342	121,541	129,124
Derivative liabilities held for risk management	339,651	-	-	339,651
Other liabilities	1,185,378	701,878	12,897	1,900,153
Reserve for employment termination	-	-	-	-
Equity	-	-	-	-
<b>Total liabilities and equity</b>	<b>67,725,122</b>	<b>60,231,108</b>	<b>322,634</b>	<b>128,278,864</b>
<b>Net balance sheet position</b>	<b>(14,040,756)</b>	<b>14,183,968</b>	<b>(55,713)</b>	<b>87,499</b>
<b>Off balance sheet derivative instruments net notional position</b>	<b>14,568,901</b>	<b>(14,174,523)</b>	<b>(57,441)</b>	<b>336,937</b>

At 31 December 2018, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 5.2801 = US Dollar 1 (“USD”) and TL 6.0404 = EUR 1.



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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(d) Currency risk (continued)**

As of 31 December 2019 and 31 December 2018, the effect of the devaluation of TL by 10% against other currencies mentioned below, on net profit and equity of the Bank, are presented in the table below. The analysis covers all foreign currency denominated assets and liabilities. The other variables, especially interest rates are assumed to be fixed.

	31 December 2019		31 December 2018	
	Effect on net profit	Effect on equity <sup>(1)</sup>	Effect on net profit	Effect on equity <sup>(1)</sup>
USD	87,824	87,824	52,815	52,815
EUR	6,535	6,535	945	945
Other currencies	(102)	(102)	(11,316)	(11,316)
<b>Total</b>	<b>94,257</b>	<b>94,257</b>	<b>42,444</b>	<b>42,444</b>

<sup>(1)</sup> Effect on equity also includes effect on net profit.

As of 31 December 2019 and 31 December 2018, the effect of the appreciation of TL by 10% against other currencies with all other variables held constant, on net profit and equity of the Bank is the same as the total amount with a negative sign as presented in the above table.

**(e) Interest rate risk**

The Bank estimates the effects of the changes in interest rates on the profitability of the Bank by analysing TL and foreign currency denominated interest rate sensitive assets and liabilities considering both their interest components as being fixed rate or variable rate and also analysing their weights among the Bank’s total assets and liabilities. Long or short positions arising from interest rate risk are determined by currency types at the related maturity intervals (up to 3 months, 3 months to 1 year, 1 year to 5 years and over 5 years) as of the period remaining to repricing date, considering the repricing of TL and foreign currency-denominated interest sensitive assets and liabilities at maturity date (for fixed rate) or at interest payment dates (for floating rate). By classifying interest sensitive assets and liabilities according to their repricing dates, Bank’s exposure to possible variations in market interest rates are determined.

The Bank determines maturity mismatches of assets and liabilities by analysing the weighted average days to maturity of TL and foreign currency-denominated (for each currency and in total in terms of their USD equivalents) assets and liabilities.

According to the Risk Management Policy approved by the Board of Directors, the Bank emphasises the matching of assets and liabilities with fixed and floating interest rates and under different currencies and also pays special attention to the level of maturity mismatch of assets and liabilities with floating and fixed interest rates in relation to the asset size of the Bank in order to limit the negative effects of interest rate changes on the Bank’s profitability.

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(e) Interest rate risk (continued)**

As of 31 December 2019 and 31 December 2018, the tables below summarise the Bank’s assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates;

	31 December 2019					Total
	Up to 3 Months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	
Cash and due from banks	2,568,954	-	-	-	7,419,264	9,988,218
Derivative financial assets	5,931	396	-	-	-	6,327
Derivative assets held for risk management	869,757	508,283	13,231	14,159	-	1,405,430
Loans and advances	55,908,466	85,908,922	476,235	8,750	39,699	142,342,072
Investment securities						
- Financial assets measured at fair value through other comprehensive income	-	-	-	-	37,822	37,822
- Financial assets measured at amortized cost	-	-	3,391,569	3,697,930	-	7,089,499
Property and equipment and intangible assets	-	-	-	-	29,410	29,410
Investment property	-	-	-	-	2,046	2,046
Other assets	622,016	508,680	13,231	14,158	-	1,158,085
<b>Total assets</b>	<b>59,975,124</b>	<b>86,926,281</b>	<b>3,894,266</b>	<b>3,734,997</b>	<b>7,528,241</b>	<b>162,058,909</b>
Funds borrowed	32,475,763	94,834,720	-	-	-	127,310,483
Subordinated liabilities	-	-	1,029,725	2,996,129	-	4,025,854
Debt securities in issue	263,654	-	18,527,877	-	-	18,791,531
Interbank money market deposits	-	-	-	-	-	-
Derivative financial liabilities	31,766	-	-	-	-	31,766
Derivative liabilities held for risk management	24,893	42,122	3,238	4,930	-	75,183
Other liabilities	81,483	52,045	1,086,217	-	1,493,244	2,712,989
Reserve for employee benefits	-	-	-	-	30,076	30,076
<b>Total liabilities</b>	<b>32,877,559</b>	<b>94,928,887</b>	<b>20,647,057</b>	<b>3,001,059</b>	<b>1,523,320</b>	<b>152,977,882</b>
<b>Net repricing gap</b>	<b>27,097,565</b>	<b>(8,002,606)</b>	<b>(16,752,791)</b>	<b>733,938</b>	<b>6,004,921</b>	<b>9,081,027</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(e) Interest rate risk (continued)**

	31 December 2018					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	
Cash and due from banks	4,104,031	-	-	-	130,576	4,234,607
Derivative financial assets	284	-	159	-	-	443
Derivative assets held for risk management	318,310	378,346	2,527	12,585	-	711,768
Loans and advances	44,869,947	84,041,639	636,570	13,254	108,641	129,670,051
Investment securities						
- Financial assets measured at fair value through other comprehensive income	-	-	-	-	20,447	20,447
- Financial assets measured at amortized cost	26,718	251,741	10,347	2,960,495	-	3,249,301
Property and equipment and intangible assets	-	-	-	-	13,616	13,616
Investment property	-	-	-	-	2,141	2,141
Other assets	318,594	378,346	2,687	12,584	621,166	1,333,377
<b>Total assets</b>	<b>49,637,884</b>	<b>85,050,072</b>	<b>652,290</b>	<b>2,998,918</b>	<b>896,587</b>	<b>139,235,751</b>
Funds borrowed	33,839,371	74,891,577	-	-	-	108,730,948
Subordinated liabilities	2,995,130	-	-	-	-	2,995,130
Debt securities in issue	7,931,922	9,247,066	-	-	-	17,178,988
Interbank money market deposits	139,005	-	-	-	-	139,005
Derivative financial liabilities	7,003	122,178	23	-	-	129,204
Derivative liabilities held for risk management	109,695	226,188	649	3,119	-	339,651
Other liabilities	14,752	17,361	-	-	2,022,272	2,054,385
Reserve for employee benefits	-	-	-	-	21,855	21,855
<b>Total liabilities</b>	<b>45,036,878</b>	<b>84,504,370</b>	<b>672</b>	<b>3,119</b>	<b>2,044,127</b>	<b>131,589,166</b>
<b>Net repricing gap</b>	<b>4,601,006</b>	<b>545,702</b>	<b>651,618</b>	<b>2,995,799</b>	<b>(1,147,540)</b>	<b>7,646,585</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(e) Interest rate risk (continued)**

The tables below summaries the range for effective average interest rates by major currencies for monetary financial instruments of the Bank at 31 December 2019 and 31 December 2018:

	31 December 2019				
	USD (%)	EUR (%)	JPY (%)	GBP (%)	TL (%)
<b>Assets</b>					
Cash and due from banks	-	-	-	-	-
- Cash equivalents	-	-	-	-	-
- Time deposits in foreign banks	2.21	-	-	-	-
- Time deposits in domestic banks	-	2.48	-	-	17.43
- Interbank money market placements	-	-	-	-	-
Loans and advances	3.54	1.44	1.41	2.07	13.73
Investment securities	-	-	-	-	-
- Financial assets measured at amortized cost	6.14	4.40	-	-	10.29
<b>Liabilities</b>					
Funds borrowed	1.34	0.42	-	-	12.35
Subordinated liabilities	-	5.06	-	-	12.54
Debt securities in issue	3.31	-	-	-	-
Interbank money market deposits	-	-	-	-	-
<b>31 December 2018</b>					
	USD (%)	EUR (%)	JPY (%)	GBP (%)	TL (%)
<b>Assets</b>					
Cash and due from banks	-	-	-	-	-
- Cash equivalents	-	-	-	-	-
- Time deposits in foreign banks	1.84	0.03	-	-	-
- Time deposits in domestic banks	-	-	-	-	17.96
- Interbank money market placements	-	-	-	-	16.21
Loans and advances	2.97	1.46	1.15	1.54	8.29
Investment securities	-	-	-	-	-
- Financial assets measured at amortized cost	-	-	-	-	11.41
<b>Liabilities</b>					
Funds borrowed	2.77	0.52	1.18	2.00	-
Subordinated liabilities	-	-	-	-	12.54
Debt securities in issue	5.35	-	-	-	-
Interbank money market deposits	-	-	-	-	18.60

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**4 FINANCIAL RISK MANAGEMENT** (continued)

**(e) Interest rate risk** (continued)

In the analysis presented below, the sensitivity of profit or loss is the effect in the interest rates on the net interest income of floating rate financial assets and liabilities at 31 December 2019 and 31 December 2018. The sensitivity of the shareholders’ equity at 31 December 2019 and 31 December 2018 is calculated through revaluating the financial assets measured at fair value through other comprehensive income taking into account the possible changes in interest rates, where applicable. The tax effects are not considered in the analysis. The other variables, especially exchange rates, are assumed to be fixed in this analysis.

31 December 2019	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders’ equity – losses/ shareholders’ equity (%)
1	TL	500 (400)	(11,169) (52,621)	(0.08) (0.40)
2	EURO	200 (200)	30,608 3,136	0.23 0.02
3	USD	200 (200)	(27,672) 40,066	(0.21) (0.30)
<b>Total (For negative shocks)</b>			<b>(9,419)</b>	<b>(0.08)</b>
<b>Total (For positive shocks)</b>			<b>(8,233)</b>	<b>(0.06)</b>

31 December 2018	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders’ equity – losses/ shareholders’ equity (%)
1	TL	500 (400)	(12,161) (35,452)	(0.11) (0.33)
2	EURO	200 (200)	33,573 (27,197)	0.31 (0.25)
3	USD	200 (200)	52,893 (54,377)	0.50 (0.51)
<b>Total (For negative shocks)</b>			<b>(117,026)</b>	<b>(1.09)</b>
<b>Total (For positive shocks)</b>			<b>74,305</b>	<b>0.70</b>

**(f) Liquidity risk**

A major objective of the Bank’s asset and liability management is to ensure that sufficient liquidity is available to meet the Bank’s commitments and to satisfy the Bank’s own liquidity needs. The Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets determined by the Board of Directors which it judges sufficient to meet its commitments.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the liquidity management of the Bank. The ability to fund the existing and prospective debt requirements is managed by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit lines and the ability to close out market positions. It is unusual for banks ever to be completely matched since the maturity, interest rates and the types of business transactions are different. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

The Bank uses the TL and foreign currency cash flow schedules prepared weekly, monthly and annually in the decision making process of the liquidity management.

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Liquidity risk (continued)**

**Liquidity Coverage Ratio (%) Max and Minimum Weeks**

In accordance with the “Regulation on Calculation of Bank’s Liquidity Coverage Ratio”, published in Official Gazette no. 28948, dated 21 March 2014, the weeks in which the highest and the lowest liquidity coverage ratio is calculated over the last three months are presented below:

Current Period							
Week Info	TL+FC (Max)	Week Info	TL+FC (Min)	Week Info	FC (Max)	Week Info	FC (Min)
22 December 2019	808.64	6 October 2019	529.49	22 December 2019	665.29	13 October 2019	419.05

Prior Period							
Week Info	TL+FC (Max)	Week Info	TL+FC (Min)	Week Info	FC (Max)	Week Info	FC (Min)
25 November 2018	253.33	14 October 2018	117.63	21 October 2018	64.37	14 October 2018 9 December 2018 16 December 2018 23 December 2018 30 December 2018	0.00

The Bank's liquidity coverage rates for 31 December 2019 are presented in the table below.

Current Period	Total Unweighted Value (Average) <sup>(*)</sup>		Total Weighted Value (Average) <sup>(*)</sup>	
	TL+FC	FC	TL+FC	FC
<b>High-Quality Liquid Assets</b>				
1 Total high-quality liquid assets (HQLA)			12,822,753	10,416,284
<b>Cash Outflows</b>				
2 Retail deposits and deposits from small business customers, of which:				
3 Stable deposits				
4 Less stable deposits				
5 Unsecured wholesale funding, of which:	11,511,921	11,511,921	5,265,822	5,265,822
6 Operational deposits				
7 Non-operational deposits				
8 Unsecured funding	11,511,921	11,511,921	5,265,822	5,265,822
9 Secured wholesale funding				
10 Other cash outflows of which:	2,124,143	1,917,923	1,805,726	1,722,678
11 Outflows related to derivative exposures and other collateral requirements	1,593,451	1,592,517	1,593,450	1,592,516
12 Outflows related to restructured financial instruments				
13 Payment commitments and other off-balance sheet commitments granted for debts to financial markets	530,692	325,406	212,276	130,162
14 Other revocable off-balance sheet commitments and contractual obligations				
15 Other irrevocable or conditionally revocable off-balance sheet obligations	10,026,974	10,026,974	501,348	501,348
<b>16 Total Cash Outflows</b>			<b>7,572,896</b>	<b>7,489,848</b>
<b>Cash Inflows</b>				
17 Secured receivables				
18 Unsecured receivables	15,556,953	13,682,976	10,029,648	8,332,096
19 Other cash inflows	7,801	6,011	7,801	6,010
<b>20 Total Cash Inflows</b>	<b>15,564,754</b>	<b>13,688,987</b>	<b>10,037,449</b>	<b>8,338,106</b>
			<i>Max limit applied values</i>	
<b>21 Total HQLA</b>			<b>12,822,753</b>	<b>10,416,284</b>
<b>22 Total Net Cash Outflows</b>			<b>1,898,419</b>	<b>1,877,657</b>
<b>23 Liquidity Coverage Ratio (%)</b>			<b>675.44</b>	<b>554.75</b>

<sup>(\*)</sup> The average of last three months’ liquidity coverage ratio calculated by weekly simple averages.

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Liquidity risk (continued)**

The Bank's liquidity coverage rates for 2018 are presented in the table below.

Prior Period	Total Unweighted Value (Average) (*)		Total Weighted Value (Average) (*)	
	TL+FC	FC	TL+FC	FC
<b>High-Quality Liquid Assets</b>				
1	Total high-quality liquid assets (HQLA)		2,867,716	453,355
<b>Cash Outflows</b>				
2	Retail deposits and deposits from small business customers, of which:			
3	Stable deposits	-	-	-
4	Less stable deposits	-	-	-
5	Unsecured wholesale funding, of which:	10,737,211	10,662,945	4,780,246
6	Operational deposits	-	-	-
7	Non-operational deposits	-	-	-
8	Unsecured funding	10,737,211	10,662,945	4,780,246
9	Secured wholesale funding			
10	Other cash outflows of which:	356,938	350,637	214,556
11	Outflows related to derivative exposures and other collateral requirements	119,636	114,633	119,636
12	Outflows related to restructured financial instruments	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	237,302	236,004	94,920
14	Other revocable off-balance sheet commitments and contractual obligations	-	-	-
15	Other irrevocable or conditionally revocable off-balance sheet obligations	9,272,627	9,272,627	463,631
16	<b>Total Cash Outflows</b>		<b>5,458,433</b>	<b>5,378,645</b>
<b>Cash Inflows</b>				
17	Secured receivables	-	-	-
18	Unsecured receivables	17,375,185	15,894,294	11,960,977
19	Other cash inflows	13,014	8,079	13,013
20	<b>Total Cash Inflows</b>	<b>17,388,199</b>	<b>15,902,373</b>	<b>11,973,990</b>
			<i>Max limit applied values</i>	
21	<b>Total HQLA</b>		<b>2,867,716</b>	<b>453,355</b>
22	<b>Total Net Cash Outflows</b>		<b>1,366,397</b>	<b>1,347,050</b>
23	<b>Liquidity Coverage Ratio (%)</b>		<b>209.78</b>	<b>33.66</b>

(\*) The average of last three months' liquidity coverage ratio calculated by weekly simple averages.

With regard of the Liquidity Coverage Ratio, banks disclose the essential issues as follows:

- Cash inflows and outflows do not have significant fluctuations because the Bank is less complex and cash inflows are higher than cash outflows during the period.
- The Bank's high quality liquid asset stock primarily consists of cash, the accounts held at CBRT and unencumbered government bonds which are issued by Turkish Treasury.
- Important funding sources of the Bank are funds from CBRT rediscount loans, syndicated loans, short-term bilateral and trade loans from domestic and overseas banks, medium and long-term funds borrowed from international financial institutions like World Bank, European Investment Bank (EIB), Council of Europe Development Bank (CEB) and Islamic Development Bank (IDB) and funds obtained from capital market transactions by issuing debt securities.

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Liquidity risk (continued)**

d) The most important items in derivatives held for hedging purposes are forwards for currency risks and swap transactions within the scope of interest rate risk.

e) The Bank distributes funding sources between CBRT, domestic banks and international development and investment banks carefully and in a balanced manner. The Bank’s principle to take first quality collaterals like guarantee letters and aval. To prevent concentration risk the bank monitoring the breakdown of the collaterals taken from banks and made policy limit controls for to not take risks up to 20% of each banks’ total cash and non-cash loans.

f) Taking into account the legal and operational liquidity transfer inhibiting factors, the needed funds and the liquidity risk exposure based on the Bank itself, the branches in foreign countries and consolidated partnerships:

None.

g) Taken in the calculation of liquidity coverage ratio but not included in the disclosure template in the second paragraph and the information regarding the other cash inflows and cash outflows items which are thought to be related to the Bank's liquidity profile:

None.

As of 31 December 2019 and 31 December 2018, the table below analyses the assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity dates.

	31 December 2019					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No stated maturity	
Cash and due from banks	2,569,054	-	-	-	7,419,264	9,988,318
Derivative financial assets	5,931	396	-	-	-	6,327
Derivative assets held for risk management	-	75,503	1,287,647	42,280	-	1,405,430
Loans and advances	39,211,339	76,790,235	22,117,816	4,182,983	506,596	142,808,969
Investment securities						
- Financial assets measured at fair value through other comprehensive income	-	-	-	-	37,822	37,822
- Financial assets measured at amortised cost	-	-	3,392,552	3,697,930	-	7,090,482
Property and equipment and intangible assets	-	-	-	-	29,410	29,410
Investment property	-	-	-	-	2,046	2,046
Other assets (*)	-	-	-	-	690,105	690,105
<b>Total assets</b>	<b>41,786,324</b>	<b>76,866,134</b>	<b>26,798,015</b>	<b>7,923,193</b>	<b>8,685,243</b>	<b>162,058,909</b>
Funds borrowed	21,680,183	85,003,603	13,556,506	7,070,191	-	127,310,483
Subordinated liabilities	-	-	-	4,025,854	-	4,025,854
Debt securities in issue	-	49,812	63,418	18,678,301	-	18,791,531
Interbank market deposits	-	-	-	-	-	-
Derivative financial liabilities	18,723	13,043	-	-	-	31,766
Derivative liabilities held for risk management	-	-	17,143	58,040	-	75,183
Other liabilities	-	-	14,699	-	2,698,290	2,712,989
Reserve for employee benefits	-	-	-	-	30,076	30,076
<b>Total liabilities</b>	<b>21,698,906</b>	<b>85,066,458</b>	<b>13,651,766</b>	<b>29,832,386</b>	<b>2,728,366</b>	<b>152,977,882</b>
<b>Net liquidity gap</b>	<b>20,087,418</b>	<b>(8,200,324)</b>	<b>13,146,249</b>	<b>(21,909,193)</b>	<b>5,956,877</b>	<b>9,081,027</b>

(\*) The expected credit loss for the loans and advances, banks and financial assets measured at amortized cost is shown in the no stated maturity column.



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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Liquidity risk (continued)**

	31 December 2018					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No stated maturity	
Cash and due from banks	4,104,897	-	-	-	130,576	4,235,473
Derivative financial assets	284	-	159	-	-	443
Derivative assets held for risk management	-	117,356	369,407	225,005	-	711,768
Loans and advances	28,905,165	73,326,611	22,192,926	5,273,246	342,508	130,040,456
Investment securities						
- Financial assets measured at fair value through other comprehensive income	-	-	-	-	20,447	20,447
- Financial assets measured at amortised cost	26,718	252,149	10,347	2,960,495	-	3,249,709
Property and equipment and intangible assets	-	-	-	-	13,616	13,616
Investment property	-	-	-	-	2,141	2,141
Other assets (*)	-	-	-	-	961,698	961,698
<b>Total assets</b>	<b>33,037,064</b>	<b>73,696,116</b>	<b>22,572,839</b>	<b>8,458,746</b>	<b>1,470,986</b>	<b>139,235,751</b>
Funds borrowed	24,272,835	61,791,949	14,551,165	8,114,999	-	108,730,948
Subordinated liabilities	-	-	-	2,995,130	-	2,995,130
Debt securities in issue	-	3,981,105	10,462,743	2,735,140	-	17,178,988
Interbank market deposits	139,005	-	-	-	-	139,005
Derivative financial liabilities	2,767	123,073	3,364	-	-	129,204
Derivative liabilities held for risk management	-	21,930	227,228	90,493	-	339,651
Other liabilities	14,505	17,361	-	-	2,022,519	2,054,385
Reserve for employee benefits	-	-	-	-	21,855	21,855
<b>Total liabilities</b>	<b>24,429,112</b>	<b>65,935,418</b>	<b>25,244,500</b>	<b>13,935,762</b>	<b>2,044,374</b>	<b>131,589,166</b>
<b>Net liquidity gap</b>	<b>8,607,952</b>	<b>7,760,698</b>	<b>(2,671,661)</b>	<b>(5,477,016)</b>	<b>(573,388)</b>	<b>7,646,585</b>

(\*) The expected credit loss for the loans and advances, banks and financial assets measured at amortized cost is shown in the no stated maturity column

The undiscounted cash flows of the financial liabilities of the Bank into relevant maturity groupings based on the remaining period at 31 December 2019 and 31 December 2018 to the contractual maturity dates are presented in the tables below:

	31 December 2019					No maturity stated	Total
	Carrying amount	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years		
Funds borrowed	127,310,483	35,044,132	72,469,128	14,330,322	8,078,858	-	129,922,440
Debt securities in issue	18,791,531	415,823	757,555	23,807,375	-	-	24,980,753
Subordinated liabilities	4,025,854	181,514	181,514	1,640,180	4,353,869	-	6,357,077
Interbank money market deposits	-	-	-	-	-	-	-
Other financial liabilities <sup>(1)</sup>	2,527,902	-	29,398	-	-	2,498,504	2,527,902
<b>Total financial liabilities</b>	<b>148,629,916</b>	<b>35,641,469</b>	<b>73,437,595</b>	<b>39,777,877</b>	<b>12,432,727</b>	<b>2,498,504</b>	<b>163,788,172</b>

<sup>(1)</sup> Tax liabilities amounting TL 18,611, funds amounting TL 13 and provisions amounting TL 166,463 are not included in other financial liabilities.

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Liquidity risk (continued)**

31 December 2018							
	Carrying amount	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	Total
Funds borrowed	108,730,948	24,579,812	62,255,980	17,268,691	14,061,105	-	118,165,588
Debt securities in issue	17,178,988	193,054	4,573,081	12,588,088	2,720,902	-	20,075,125
Subordinated liabilities	2,995,130	181,513	181,513	1,452,102	4,716,886	-	6,532,014
Interbank money market deposits	139,005	139,181	-	-	-	-	139,181
Other financial liabilities <sup>(1)</sup>	1,513,587	17,518	162,364	230,591	180,962	2,230,004	2,821,439
<b>Total financial liabilities</b>	<b>130,557,658</b>	<b>25,111,078</b>	<b>67,172,938</b>	<b>31,539,472</b>	<b>21,679,855</b>	<b>2,230,004</b>	<b>147,733,347</b>

<sup>(1)</sup> Tax liabilities amounting TL 14,752, funds amounting TL 13 and unearned income accruals and suspend account amounting TL 526,033 are not included in other financial liabilities.

The undiscounted cash inflows and outflows of derivative transactions of the Bank at 31 December 2019 and 31 December 2018 are presented in the tables below:

31 December 2019					
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>Derivative financial assets and liabilities:</b>					
Foreign exchange derivatives:					
- Outflow	3,260,569	-	-	-	3,260,569
- Inflow	3,254,070	-	-	-	3,254,070
Interest rate derivatives:					
- Outflow	445,562	3,554,899	-	-	4,000,461
- Inflow	444,541	3,537,098	-	-	3,981,639
<b>Derivatives held for risk management:</b>					
Foreign exchange derivatives:					
- Outflow	194,339	1,815,629	16,452,233	1,468,144	19,930,345
- Inflow	355,581	2,322,132	18,410,530	1,516,988	22,605,231
Interest rate derivatives:					
- Outflow	92,415	256,595	6,512,428	-	6,861,438
- Inflow	79,828	239,484	6,499,496	-	6,818,808
<b>Total outflow</b>	<b>3,992,885</b>	<b>5,627,123</b>	<b>22,964,661</b>	<b>1,468,144</b>	<b>34,052,813</b>
<b>Total inflow</b>	<b>4,134,020</b>	<b>6,098,714</b>	<b>24,910,026</b>	<b>1,516,988</b>	<b>36,659,748</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(f) Liquidity risk (continued)**

	31 December 2018				Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	
<b>Derivative financial assets and liabilities:</b>					
Foreign exchange derivatives:					
- Outflow	942,428	1,296,861	290,027	2,578,420	5,107,736
- Inflow	942,076	1,310,427	646,816	2,720,902	5,620,221
Interest rate derivatives:					
- Outflow	207,631	1,121,817	2,500,747	-	3,830,195
- Inflow	234,128	1,091,454	2,497,438	-	3,823,020
<b>Derivatives held for risk management:</b>					
Foreign exchange derivatives:					
- Outflow	91,515	2,091,995	8,359,658	1,823,650	12,366,818
- Inflow	185,172	2,420,372	9,326,406	1,855,059	13,787,009
Interest rate derivatives:					
- Outflow	87,603	3,601,775	6,229,716	-	9,919,094
- Inflow	70,950	3,528,324	6,060,558	-	9,659,832
<b>Total outflow</b>	<b>1,329,177</b>	<b>8,112,448</b>	<b>17,380,148</b>	<b>4,402,070</b>	<b>31,223,843</b>
<b>Total inflow</b>	<b>1,432,326</b>	<b>8,350,577</b>	<b>18,531,218</b>	<b>4,575,961</b>	<b>32,890,082</b>

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**4 FINANCIAL RISK MANAGEMENT** (continued)

**(g) Derivative financial instruments held for hedging purposes**

- The bond with the amount of USD 500 million, issued in September 2017 with a maturity of five years and a fixed interest payment rate of 4.250% per six months, is subjected to hedge accounting by cross currency swap transactions in September 2017.
- The bond with the amount of USD 500 million, issued in September 2014 with a maturity of seven years and a fixed interest payment rate of 5.000% per six months, is subjected to hedge accounting by cross currency swap transactions in April 2018.
- The bond with the amount of USD 500 million issued in May 2018 with a maturity of six years and a fixed interest payment rate of 6.125% per six months, is subjected to hedge accounting by cross currency swap transactions in May 2018.
- The bond with the amount of USD 500 million, issued in January 2019 with a fixed interest payment rate of 8.250% per six months, is subjected hedge accounting by cross currency swap transactions in January 2019.

Also, changes in fair value of USD debt securities, issued in February 2016 and in October 2016 amounting to USD 500 million, with 5 years and 7 years maturities, respectively, with 5.000% and 5.375% fixed interest rates, arising from fluctuation in Libor interest rates are hedged by applying fair value hedge accounting with interest rate swap transactions.

**Fair value hedge accounting**

Starting from 1 January 2013, the Bank uses “Fair Value Hedge Accounting”.

The impact of fair value hedge accounting is summarised below:

<b>31 December 2019</b>				
<b>Type of hedging instrument</b>	<b>Hedge item (asset and liability)</b>	<b>Nature of hedge risks</b>	<b>Net fair value of the hedge</b>	
			<b>Asset</b>	<b>Liability</b>
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	-	42,036
Cross currency swap	Fixed interest rate US dollar debt securities	Currency and interest rate risk	1,258,289	3,238
<b>31 December 2018</b>				
<b>Type of hedging instrument</b>	<b>Hedge item (asset and liability)</b>	<b>Nature of hedge risks</b>	<b>Net fair value of the</b>	
			<b>Asset</b>	<b>Liability</b>
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	-	248,510
Forward Transactions	Originated CBRT-Rediscount TL Loans	Fixed interest rate risk	567,608	649

The Bank evaluates the effectiveness of the hedge accounting at initial date and at every reporting period. Effectiveness test is performed by using “Dollar off-set method”. The Bank continues the hedge accounting if the effectiveness is between 80% and 125%.

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**4 FINANCIAL RISK MANAGEMENT** (continued)

**(g) Derivative financial instruments held for hedging purposes** (continued)

**Fair value hedge accounting** (continued)

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Trading gains and losses on derivative financial instruments” account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortized cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the profit or loss accounts.

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the fair value hedge accounting in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way in accordance with the Bank’s risk management policies. Effectiveness tests were chosen among methods allowed within the context of IAS 39 in accordance with the Bank’s risk management policies. The Bank’s assumptions, which used for determining fair values of derivative instruments, were used while calculating fair value of hedged items on the effectiveness tests. The effectiveness tests are performed and effectiveness of risk relations are measured on a monthly basis. The effectiveness tests are performed rewardingly at the beginning of risk relations. If the underlying hedge does not conform to the accounting requirements (out of 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, in the context of the fair value hedge, adjustments on the carrying value of the hedged item is reflected on the on “Gains/(losses) on financial assets measured at fair value through profit or loss” accounts by using straight line method of amortization.

**Cash flow hedge accounting**

Starting from 13 August 2015, the Bank uses “Cash Flow Hedge Accounting”.

The impact of cash flow hedge accounting is summarised below:

31 December 2019					
Type of hedging instrument	Hedge item (asset and liability)	Nature of hedge risks	Fair value of the hedge item	Net fair value of the hedge	
				Asset	Liability
Cross currency swap	Fixed interest rate US dollar debt securities	Currency and interest rate risk	48,999	147,141	29,909

31 December 2018					
Type of hedging instrument	Hedge item (asset and liability)	Nature of hedge risks	Fair value of the hedge item	Net fair value of the hedge	
				Asset	Liability
Cross currency swap	Fixed interest rate US dollar debt securities	Currency risk	252	72,003	-
Cross currency swap	Floating interest rate US Dollar borrowings	Currency risk and interest rate risk	48,981	72,157	90,492

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**4 FINANCIAL RISK MANAGEMENT** *(continued)*

**(g) Derivative financial instruments held for hedging purposes** *(continued)*

***Cash flow hedge accounting*** *(continued)*

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the cash flow hedge accounting application in accordance with IAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with the Bank’s risk management policies. The effectiveness tests are performed on a monthly basis. If the underlying hedge does not conform to the cash flow hedge accounting requirements (out of 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur the net cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

**(h) Fair value of financial instruments**

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

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

The following methods and assumptions were used to estimate the fair value of the Bank’s financial instruments:

**(i) *Financial assets***

The fair values of certain financial assets carried at cost or amortised cost, including cash and due from banks (including receivables from CBRT) are considered to approximate their respective carrying values due to their short-term nature.

The fair value of investment securities has been determined based on bid market prices at reporting dates.

Loans and advances are net of provisions for impairment.

The estimated fair value of loans and advances represents the discounted amount, at current market rates, of future cash flows expected to be received.

The fair value of other financial assets is also considered to approximate their respective carrying values due to their nature.

**(ii) *Financial liabilities***

The fair value of funds borrowed is based on market prices or are based on discounted cash flows using current interest rates prevailing at the reporting date.

The fair value of other financial liabilities is also considered to approximate their respective carrying values due to their nature.

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**4 FINANCIAL RISK MANAGEMENT** (continued)

**(h) Fair value of financial instruments** (continued)

**(iii) Derivative financial assets and liabilities**

The fair values of foreign exchange and interest rate swaps have been estimated based on quoted market rates prevailing at the reporting date.

The following table summarises the carrying amounts and fair values of those significant financial assets and liabilities not presented on the Bank’s statement of financial position at their fair value.

	31 December 2019		31 December 2018	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>				
Cash and due from banks	9,988,218	9,988,218	4,234,607	4,234,607
Investment securities				
- Financial assets measured at fair value through other comprehensive income	7,818 <sup>(1)</sup>	7,818	5,056 <sup>(1)</sup>	5,056
- Financial assets measured at amortized cost	7,089,499	6,883,891	3,249,301	2,600,786
Loans and advances	142,342,072	149,042,930	129,670,051	132,645,706
<b>Financial liabilities:</b>				
Funds borrowed	127,310,483	132,701,700	108,730,948	107,179,183
Debt securities in issue	18,791,531	19,450,006	17,178,988	16,600,759
Subordinated loans	4,025,854	4,203,702	2,995,130	2,901,759
Interbank money market deposits	-	-	139,005	139,005

<sup>(1)</sup> Garanti Faktoring AŞ shares amounting to TL 30,004 are not included (31 December 2018: TL 15,391).

As of 31 December 2019 and 31 December 2018, fair values of financial assets measured at amortized cost are determined as Level 1 and fair values of loans and advances are determined as Level 2. Fair values of funds borrowed and debt securities are determined as Level 2.

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(h) Fair value of financial instruments (continued)**

The following table summarises the fair values of those financial assets and liabilities presented on the Bank’s statement of financial position based on the hierarchy of valuation technique as of 31 December 2019 and 31 December 2018.

<b>31 December 2019</b>	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
<i>Financial assets at fair value through profit or loss</i>				
- Derivative financial assets	-	6,327	-	6,327
Derivative assets held for risk management	-	1,405,430	-	1,405,430
<i>Financial assets measured at fair value through other comprehensive income</i>				
- Equity investments <sup>(4)</sup>	30,004	-	-	30,004
<b>Total assets</b>	<b>30,004</b>	<b>1,411,757</b>	<b>-</b>	<b>1,441,761</b>
<i>Financial liabilities at fair value through profit or loss</i>				
- Derivative financial liabilities	-	31,766	-	31,766
Derivative liabilities held for risk management	-	75,183	-	75,183
<b>Total liabilities</b>	<b>-</b>	<b>106,949</b>	<b>-</b>	<b>106,949</b>

(1) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity investments and debt instruments. This level includes listed equity investments and debt instruments actively traded on exchanges.

(2) Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.

(3) Fair values are calculated with unobservable inputs for equity instruments.

(4) Unlisted equity investments which are accounted with their cost amount to TL 7,818 are excluded.



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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(h) Fair value of financial instruments (continued)**

<b>31 December 2018</b>	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
<i>Financial assets at fair value through profit or loss</i>				
- Derivative financial assets	-	443	-	443
Derivative assets held for risk management	-	711,768	-	711,768
<i>Financial assets measured at fair value through other comprehensive income</i>				
- Equity investments <sup>(4)</sup>	15,391	-	-	15,391
<b>Total assets</b>	<b>15,391</b>	<b>712,211</b>	<b>-</b>	<b>727,602</b>
<i>Financial liabilities at fair value through profit or loss</i>				
- Derivative financial liabilities	-	129,204	-	129,204
Derivative liabilities held for risk management	-	339,651	-	339,651
<b>Total liabilities</b>	<b>-</b>	<b>468,855</b>	<b>-</b>	<b>468,855</b>

<sup>(1)</sup> Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity investments and debt instruments. This level includes listed equity investments and debt instruments actively traded on exchanges.

<sup>(2)</sup> Fair values are calculated with observable input parameters (either directly as prices or indirectly as derived from prices) for derivative transactions. This level includes OTC derivative contracts.

<sup>(3)</sup> Fair values are calculated with unobservable inputs for equity instruments.

<sup>(4)</sup> Unlisted equity investments which are accounted with their cost amount to TL 5,056 are excluded.

**(i) Capital management**

The BRSA sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, other comprehensive income, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.

- Tier 2 capital, which includes qualifying subordinated liabilities and general provisions. The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Tier 2 capital, respectively, to total value at credit, market and operational risks starting from 1 January 2014.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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**4 FINANCIAL RISK MANAGEMENT** (continued)

**(i) Capital management** (continued)

The Bank’s regulatory capital position on at 31 December 2019 and 31 December 2018 were as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Tier I capital	10,071,322	7,647,045
Tier II capital	3,080,681	3,031,973
<b>Total regulatory capital</b>	<b>13,152,003</b>	<b>10,679,018</b>
Amount subject to credit risk	67,116,236	55,655,448
Amount subject to market risk	142,963	116,788
Amount subject to operational risk	1,757,565	1,447,228
<b>Total regulatory capital expressed as a percentage of total value at credit, market and operational risks (%)</b>	<b>19.06</b>	<b>18.66</b>
<b>Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks (%)</b>	<b>14.59</b>	<b>13.36</b>

**5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(a) Allowances for credit losses**

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

**(b) Fair value of derivatives**

The fair values of financial instruments that are not traded in the organized markets are determined by using valuation techniques. The valuation techniques used in the determination of fair values are reviewed periodically and approved by experienced employees.

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**6 CASH AND DUE FROM BANKS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Cash funds:</b>		
Cash on hand	21	29
	<b>21</b>	<b>29</b>
<b>Current accounts and demand deposits:</b>		
Central Bank of Republic of Turkey (CBRT)	7,320,831	291
Foreign banks	166,636	3,709,263
Domestic banks	3,956	-
	<b>7,491,423</b>	<b>3,709,554</b>
<b>Time deposits:</b>		
Central Bank of Republic of Turkey (CBRT)	-	-
Foreign banks	891,105	-
Domestic banks	1,605,769	303,241
	<b>2,496,874</b>	<b>303,241</b>
Interbank money market placements	-	222,649
Expected credit loss	(100)	(866)
<b>Total cash and due from banks</b>	<b>9,988,218</b>	<b>4,234,607</b>

Cash and cash equivalents included in the statements of cash flows for the periods ended 31 December 2019 and 31 December 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Cash and due from banks	9,988,218	4,234,607
Less: interest accruals	(70)	(1,540)
Add: Expected credit loss	100	866
<b>Cash and cash equivalents</b>	<b>9,988,248</b>	<b>4,233,933</b>

Cash and cash equivalents are mainly composed of bank deposits as of 31 December 2019 and 31 December 2018.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
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**7 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES**

The Bank utilises the following derivative financial assets and liabilities:

“Currency and interest rate swaps” are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of principal as well. The Bank’s “credit risks” represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank’s exposure to credit or price risks. The derivative instruments become favourable (as assets) or unfavourable (as liabilities) as a result of fluctuations in foreign exchange rates and interest rates. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative financial assets and liabilities held as of 31 December 2019 and 31 December 2018 are set out in the following table:

	31 December 2019		31 December 2018	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
Interest rate and currency swaps purchases and sales	821	-	337	-
Forward purchases and sales	5,506	-	82	-
Foreign currency swaps purchases and sales	-	-	-	(80)
Cross currency and basis swaps purchases and sales	-	(31,766)	-	(129,120)
Option purchases and sales	-	-	24	(4)
<b>Total derivative assets/(liabilities)</b>	<b>6,327</b>	<b>(31,766)</b>	<b>443</b>	<b>(129,204)</b>

Even though certain derivative transactions, while providing effective economic hedges under the Bank’s risk management position, do not qualify for hedge accounting under the specific rules in IAS 39 which is permitted to be applied in IFRS 9 and are therefore treated as derivative financial assets. Hedge accounting is explained in detail in Note 4.

The notional amounts of derivative transactions are explained in detail in Note 26.

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**8 LOANS AND ADVANCES**

The Bank follows loans and advances under one class as corporate loans; the classifications in the table below mainly refer to lending programs of the Bank to corporate customers;

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Short-term</b>		
Discount loans	90,216,365	78,262,582
Financial institutions	7,444,259	7,651,070
Export guaranteed loans	2,597,849	2,517,806
Specialised loans	246,709	263,665
Other guaranteed loans	73	193
	<b>100,505,255</b>	<b>88,695,316</b>
<b>Medium and long-term</b>		
Export guaranteed loans	20,063,648	22,515,334
Export guaranteed investment loans	8,511,042	8,898,122
Financial institutions	4,980,995	3,428,541
Foreign country loans (political risks)	4,781,243	4,488,604
Specialised loans	245,105	320,792
Other	345,572	672,603
	<b>38,927,605</b>	<b>40,323,996</b>
<b>Performing loans</b>	<b>139,432,860</b>	<b>129,019,312</b>
Loans under close monitoring	2,869,510	678,636
Impaired loans and advances	506,598	342,508
<b>Gross loans and advances</b>	<b>142,808,968</b>	<b>130,040,456</b>
Expected credit losses- Stage 1	(38,559)	(33,225)
Expected credit losses- Stage 2	(5,034)	(1,826)
Expected credit losses- Stage 3	(423,303)	(335,354)
<b>Net loans and advances</b>	<b>142,342,072</b>	<b>129,670,051</b>

The Bank provides impairment provision for non-performing loans amounting to TL 506,598 (31 December 2018: TL 342,508) comprising 0.35% (31 December 2018: 0.26%) of the total loans outstanding at 31 December 2019.

As of 31 December 2019 the Bank has not provided an additional impairment provision for other components of the loan portfolio to cover the incurred loss present in the lending relationship but not yet identified with a specific loan (31 December 2018: TL 27,897).

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**8 LOANS AND ADVANCES** (continued)

Movements in the provision for impairment losses for the periods ended 31 December 2019 and 31 December 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Balance at the beginning of the period</b>	<b>370,405</b>	<b>320,711</b>
Impact of adopting IFRS 9	-	(27,259)
Recoveries and reversals	(36,927)	(31,682)
Provision for the period	133,418	108,635
<b>Balance at the end of the period</b>	<b>466,896</b>	<b>370,405</b>

Loans and advances to the public and private sectors are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
Private sector	132,860,194	126,041,604
Public sector	9,481,878	3,628,447
	<b>142,342,072</b>	<b>129,670,051</b>

**9 INVESTMENT SECURITIES**

**(a) Financial assets measured at fair value through other comprehensive income:**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial assets measured at fair value through other comprehensive income</b>		
Equity investments		
- Listed	30,004	15,391
- Unlisted	7,818	5,056
<b>Total</b>	<b>37,822</b>	<b>20,447</b>

There are no securities pledged under repurchase agreements or pledged as collateral with financial institutions.

As of 31 December 2019 and 31 December 2018, unrealised gain and losses arising from changes in the fair value of securities classified as financial assets measured at fair value through other comprehensive income are recognised in other comprehensive income unless there is objective evidence that the asset is impaired in which case they are charged to the statement of profit or loss.

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**9 INVESTMENT SECURITIES** (continued)

**(a) Financial assets measured at fair value through other comprehensive income** (continued):

The breakdown of equity investments classified as financial assets measured at fair value through other comprehensive income at 31 December 2019 and 31 December 2018 are as follows:

	Share %	Carrying amount	Share %	Carrying amount	Business
	31 December 2019	31 December 2019	31 December 2018	31 December 2018	
<b>Equity investments</b>					
Garanti Faktoring AŞ	9.78	30,004	9.78	15,391	Factoring
Kredi Garanti Fonu AŞ	1.49	7,658	1.54	4,896	Financial services
Borsa İstanbul AŞ	-	160	-	160	Financial services
		<b>37,822</b>		<b>20,447</b>	

**(b) Financial assets measured at amortised cost:**

	31 December 2019	31 December 2018
<b>Debt securities</b>		
- Government bonds	7,089,499	3,249,301
<b>Total</b>	<b>7,089,499</b>	<b>3,249,301</b>

As of 31 December 2019, government bonds and treasury bills amounting to TL 601,480 (31 December 2018: TL 427,154) have been pledged as collateral with the CBRT and Borsa İstanbul AŞ-Settlement and Custody Bank.

The movement of securities classified as financial assets measured at amortised costs as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	31 December 2018
<b>Balance at 1 January</b>	<b>3,249,301</b>	<b>180,461</b>
Impact of adopting IFRS 9	-	(13)
Purchases	4,032,405	3,198,105
Redemptions	(271,492)	(220,654)
Foreign exchange difference	32,550	-
Interest income accruals	47,718	91,810
Expected credit loss	(983)	(408)
<b>Amount at the end of the period</b>	<b>7,089,499</b>	<b>3,249,301</b>

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**10 PROPERTY AND EQUIPMENT**

	<b>Buildings</b>	<b>Leased Assets</b>	<b>Vehicles</b>	<b>Other Tangible Assets</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost</b>						
Opening balance, 1 January 2018	1,108	127	3,379	13,752	14,257	32,623
Additions	-	-	-	2,745	-	2,745
Disposals	-	-	-	(281)	-	(281)
Transfers	222	-	-	-	-	222
<b>Closing balance, 31 December 2018</b>	<b>1,330</b>	<b>127</b>	<b>3,379</b>	<b>16,216</b>	<b>14,257</b>	<b>35,309</b>
<b>Accumulated depreciation:</b>						
Opening balance, 1 January 2018	669	127	2,838	8,959	13,795	26,388
Additions	25	-	237	1,834	462	2,558
Disposals	-	-	-	(384)	-	(384)
Transfers	135	-	-	-	-	135
<b>Closing balance, 31 December 2018</b>	<b>829</b>	<b>127</b>	<b>3,075</b>	<b>10,409</b>	<b>14,257</b>	<b>28,697</b>
<b>Cost</b>						
Opening balance, 1 January 2019	1,330	127	3,379	16,216	14,257	35,309
Additions	21,024	-	951	2,129	-	24,104
Disposals	-	(96)	-	(2,100)	-	(2,196)
Transfers	-	-	-	-	-	-
<b>Closing balance, 31 December 2019</b>	<b>22,354</b>	<b>31</b>	<b>4,330</b>	<b>16,245</b>	<b>14,257</b>	<b>57,217</b>
<b>Accumulated depreciation:</b>						
Opening balance, 1 January 2019	829	127	3,075	10,409	14,257	28,697
Additions	6,119	-	264	1,886	-	8,269
Disposals	-	(96)	-	(1,943)	-	(2,039)
Transfers	-	-	-	-	-	-
<b>Closing balance, 31 December 2019</b>	<b>6,948</b>	<b>31</b>	<b>3,339</b>	<b>10,352</b>	<b>14,257</b>	<b>34,927</b>
<b>As at 31 December 2018, net carrying value</b>	<b>501</b>	<b>-</b>	<b>304</b>	<b>5,807</b>	<b>-</b>	<b>6,612</b>
<b>As at 31 December 2019, net carrying value</b>	<b>15,406</b>	<b>-</b>	<b>991</b>	<b>5,893</b>	<b>-</b>	<b>22,290</b>



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**11 INTANGIBLE ASSETS**

	<b>Intangible assets</b>
<b>Cost</b>	
Opening balance, 1 January 2018	10,488
Additions	2,238
Disposals	-
<b>Closing balance, 31 December 2018</b>	<b>12,726</b>
<b>Accumulated amortisation:</b>	
Opening balance, 1 January 2018	(4,435)
Additions	(1,287)
Disposals	-
<b>Closing balance, 31 December 2018</b>	<b>(5,722)</b>
<b>Cost</b>	
Opening balance, 1 January 2019	12,726
Additions	1,531
Disposals	-
<b>Closing balance, 31 December 2019</b>	<b>14,257</b>
<b>Accumulated amortisation:</b>	
Opening balance, 1 January 2019	(5,722)
Additions	(1,415)
Disposals	-
<b>Closing balance, 31 December 2019</b>	<b>(7,137)</b>
<b>As at 31 December 2018, net carrying value</b>	<b>7,004</b>
<b>As at 31 December 2019, net carrying value</b>	<b>7,120</b>

**12 INVESTMENT PROPERTY**

As of 31 December 2019, The Bank has net investment property amounting to TL 2,046 (31 December 2018: TL 2,141).

Istanbul service building which is previously accounted as tangible asset is classified to investment property account in accordance with IAS 40 Investment Property after the building is leased to Investment Support and Promotion Agency of Turkey.

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**13 OTHER ASSETS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial assets</b>		
Prepayments	979,611	971,953
Guarantees given	65,354	273,950
Notes receivable	33,917	28,116
Receivables from Reassurance Companies	1,366	17,506
Receivables from banks	-	62
Other	78,276	42,782
	<b>1,158,524</b>	<b>1,334,369</b>
Expected credit losses	(439)	(992)
	<b>1,158,085</b>	<b>1,333,377</b>

**14 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS**

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Interbank money market deposits – TL</b>	<b>-</b>	<b>139,005</b>
Domestic banks	94,648,792	80,352,936
Foreign banks	32,661,691	28,378,012
<b>Funds borrowed</b>	<b>127,310,483</b>	<b>108,730,948</b>
<b>Funds borrowed and interbank money market deposits total</b>	<b>127,310,483</b>	<b>108,869,953</b>

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**14 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS (continued)**

The breakdown of funds borrowed as of 31 December 2019 and 31 December 2018 is as follows:

31 December 2019	Interest rate	Original currency amount (thousands)	Original currency	TL	Maturity date (year)
<b>Due to Central Bank</b>	(LIBOR/EURIBOR + 0%)			<b>89,371,564</b>	
CBRT Loan		6,342,416	USD	37,673,953	(1)
CBRT Loan		7,736,734	EUR	51,486,419	(1)
CBRT Loan		25,298	GBP	197,452	(1)
CBRT Loan		251,600	JPY	13,740	(1)
	(LIBOR/EURIBOR + 0.01% - 3.15%)			<b>9,411,175</b>	
<b>Due to IFIs</b>					
Black Sea Trade and Development Bank		56,342	EUR	334,710	23.10.2020
Counsel of Europe Development Bank		231,509	EUR	1,375,325	8.02.2022-7.08.2025
European Investment Bank		466,584	EUR	2,771,834	17.12.2021-23.12.2024
European Investment Bank		63,854	USD	379,337	16.01.2024-29.07.2024
Islamic Development Bank		260,705	USD	1,548,772	14.04.2026-25.10.2027
World Bank (EFIL) Loans		46,021	EUR	273,398	1.03.2038
World Bank (EFIL) Loans		154,964	USD	920,592	1.03.2038
World Bank (LTEF) Loans		304,208	USD	1,807,206	15.07.2038
	(LIBOR/EURIBOR + 0.70% - 3.50%)			<b>28,527,744</b>	
<b>Due to Commercial Banks</b>					
Bank ABC		16,846	EUR	100,079	10.11.2020
China Development Bank		200,170	USD	1,189,150	18.09.2020
Citibank Dublin		49,666	USD	295,053	5.03.2020
ICBC Macau Ltd.		351,747	USD	2,089,622	28.02.2022
ICBC Turkey Bank A.Ş.		250,989	EUR	1,491,052	22.05.2020-4.06.2020
ING DIBA		88,738	EUR	527,168	4.12.2026
ING European Financial Services		112,369	EUR	667,551	11.11.2020
Intesa Sanpaolo SPA, Istanbul Branch		113,595	EUR	674,837	12.05.2020
Mizuho Corporate Bank Ltd		100,759	USD	598,581	10.07.2020
MUFG Bank London		37,591	USD	223,317	03.01.2020
Standard Chartered Bank		98,480	EUR	585,041	4.06.2020-6.07.2020
Sumitomo Mitsui Banking Corporation Dubai		49,618	USD	294,767	22.01.2020-30.06.2020
Syndicated loan		1,220,362	EUR	7,249,804	3.02.2020-17.11.2020
Syndicated loan		302,087	USD	1,794,608	3.02.2020-17.11.2020
Syndicated loan with ICIEC Guarantee		201,711	EUR	1,198,302	21.06.2024
Syndicated loan with MIGA Guarantee		773,448	USD	4,594,820	28.03.2025-27.06.2028
Syndicated loan with MIGA Guarantee		778,664	EUR	4,625,811	28.03.2025-27.06.2028
Türkiye Vakıflar Bankası T.A.O.		55,243	USD	328,180	30.11.2020
<b>Total funds borrowed</b>		<b>21,476,348<sup>(2)</sup></b>		<b>127,310,483</b>	

(1) CBRT loans are rediscount loans extended by CBRT, having wide range of maturity dates.

(2) Balance is denominated by USD.

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**14 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS (continued)**

31 December 2018	Interest rate	Original currency amount (thousands)	Original currency	TL	Maturity date (year)
<b>Due to Central Bank</b>	(LIBOR/EURIBOR + %0)			<b>75,478,111</b>	
CBRT Loan		6,645,950	USD	35,091,281	(1)
CBRT Loan		6,654,962	EUR	40,198,634	(1)
CBRT Loan		27,972	GBP	188,196	(1)
	(LIBOR/EURIBOR + %0.01 - %2.9)			<b>8,856,248</b>	
<b>Due to IFIs</b>					
Black Sea Trade and Development Bank		50,273	EUR	303,667	23.10.2020
Counsel of Europe Development Bank		160,000	EUR	966,464	26.10.2022-8.02.2024
European Investment Bank		497,224	EUR	3,003,433	17.12.2021-29.07.2024
European Investment Bank		77,479	USD	409,098	16.01.2024-29.07.2024
Islamic Development Bank		273,039	USD	1,441,676	14.04.2026-25.10.2027
World Bank (EFIL) Loans		43,302	EUR	261,564	01.03.2038
World Bank (EFIL) Loans		163,249	USD	861,971	01.03.2038
World Bank (LTEF) Loans		304,611	USD	1,608,377	15.07.2038
	(LIBOR/EURIBOR + %0.85 - %3.15)			<b>24,396,589</b>	
<b>Due to Commercial Banks</b>					
Abu Dhabi Commercial Bank		50,051	USD	264,274	20.06.2019
China Development Bank		200,192	USD	1,057,032	18.09.2020
Citibank Dublin		25,177	USD	132,939	05.03.2020
Commercial Bank of Qatar		28,133	USD	148,544	28.05.2019
Emirates NBD		20,125	EUR	121,565	25.07.2019
First Abu Dhabi Bank		30,013	EUR	181,293	11.06.2019
HSBC		27,556	USD	145,498	13.05.2019
ING DIBA		90,533	EUR	546,854	04.12.2026
ING European Financial Services		200,536	EUR	1,211,316	11.11.2020
Intesa Sanpaolo SPA, Istanbul Branch		100,864	EUR	609,260	13.05.2019
Mizuho Corporate Bank Ltd		50,215	EUR	303,318	11.07.2019
Mizuho Corporate Bank Ltd		60,226	USD	317,998	22.05.2019
MUFG Bank London		12,308	USD	64,985	22.02.2019
MUFG Bank Turkey		100,210	EUR	605,310	11.06.2019
Standard Chartered Bank		100,236	USD	529,256	31.05.2019-17.06.2019
Sumitomo Mitsui Banking Corporation Dubai		23,529	USD	124,235	24.04.2019
Syndicated loan with MIGA Guarantee		720,527	EUR	4,352,273	28.03.2025-27.06.2028
Syndicated loan with MIGA Guarantee		831,947	USD	4,392,763	28.03.2025-27.06.2028
Syndicated loan		1,135,841	EUR	6,860,937	02.04.2019-22.04.2021
Syndicated loan		153,902	USD	812,619	02.04.2019-22.04.2021
ICBC Turkey Bank A.Ş.		250,201	USD	1,321,088	22.05.2020-04.06.2020
Türkiye Vakıflar Bankası T.A.O.		55,535	USD	293,231	30.11.2020
<b>Total funds borrowed</b>		<b>17,858,975<sup>(2)</sup></b>		<b>108,730,948</b>	

(1) CBRT loans are rediscount loans extended by CBRT, having wide range of maturity dates.

(2) Balance is denominated by USD.

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**14 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS (continued)**

The repayment of the funds borrowed were as follows during 2019:

	<b>FX Type</b>	<b>Repayment amount</b>	<b>Dates</b>
European Investment Bank	EUR	10,000	7 January 2019
European Investment Bank	USD	1,915	14 January 2019
Citibank Dublin	USD	25,000	28 January 2019
European Investment Bank	USD	2,841	28 January 2019
European Investment Bank	EUR	2,375	28 January 2019
European Investment Bank	USD	1,903	11 February 2019
MUFG Bank Turkey	USD	12,255	22 February 2019
World Bank	EUR	1,110	1 March 2019
World Bank	USD	4,148	1 March 2019
Syndicated loans	USD	10,417	28 March 2019
Syndicated loans	EUR	5,556	28 March 2019
Syndicated loans	USD	20,500	2 April 2019
Syndicated loans	EUR	179,250	2 April 2019
Syndicated loans	USD	20,500	2 April 2019
Syndicated loans	EUR	179,250	2 April 2019
European Investment Bank	EUR	1,471	3 April 2019
Sumitomo Mitsui Banking Corporation Dubai	USD	23,500	24 April 2019
Bond	USD	750,000	24 April 2019
Council of Europe Development Bank	EUR	5,000	26 April 2019
Intesa Sanpaolo İstanbul Branch	EUR	100,000	13 May 2019
HSBC London	USD	27,501	13 May 2019
ING European Financial Services	EUR	50,000	13 May 2019
Council of Europe Development Bank	EUR	5,000	16 May 2019
Mizuho Corporate Bank Ltd	USD	60,000	22 May 2019
Commercial Bank of Qatar	USD	28,000	28 May 2019
Standard Chartered Bank	USD	50,000	31 May 2019
First Abu Dhabi	EUR	30,000	11 June 2019
ING DIBA	EUR	5,653	11 June 2019
European Investment Bank	EUR	1,471	17 June 2019
Standard Chartered Bank	USD	50,000	17 June 2019
European Investment Bank	EUR	10,000	19 June 2019
Abu Dhabi Commercial Bank	USD	50,000	20 June 2019
European Investment Bank	EUR	5,000	20 June 2019
European Investment Bank	EUR	5,000	28 June 2019
European Investment Bank	EUR	10,000	8 July 2019
Mizuho Corporate Bank Ltd	EUR	50,000	11 July 2019
European Investment Bank	USD	1,915	15 July 2019
Emirates NBD	EUR	20,000	25 July 2019
European Investment Bank	USD	2,841	29 July 2019
European Investment Bank	EUR	2,375	29 July 2019
Council of Europe Development Bank	EUR	8,333	8 August 2019
European Investment Bank	USD	1,903	9 August 2019
World Bank	EUR	1,110	2 September 2019
World Bank	USD	4,148	3 September 2019
Syndicated loans	EUR	5,556	30 September 2019
Syndicated loans	USD	10,417	30 September 2019
European Investment Bank	EUR	1,471	3 October 2019
Syndicated loans	EUR	465	9 October 2019
Syndicated loans	USD	26,400	9 October 2019
Islamic Development Bank	USD	12,096	15 October 2019
Council of Europe Development Bank	EUR	5,000	28 October 2019
ING European Financial Services	EUR	50,000	11 November 2019
Council of Europe Development Bank	EUR	5,000	18 November 2019
MUFG Bank Turkey	EUR	100,000	22 November 2019
International Islamic Trade Finance Corporation (ITFC)	USD	380,500	26 November 2019
ING DIBA	EUR	5,653	4 December 2019
European Investment Bank	EUR	1,471	17 December 2019
European Investment Bank	EUR	10,000	19 December 2019
European Investment Bank	EUR	5,000	20 December 2019
European Investment Bank	EUR	10,000	23 December 2019
Syndicated loans	EUR	14,286	30 December 2019
Syndicated loans	USD	37,500	30 December 2019
European Investment Bank	EUR	5,000	30 December 2019
Syndicated loans	EUR	93,250	31 December 2019

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**15 DEBT SECURITIES IN ISSUE**

<b>Information regarding securities issued</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
Securities Issued	18,078,347	17,160,325
Discount on Issuance of Securities (-)	68,356	319,005
Bond Interest Accrual	781,540	337,668
<b>Total</b>	<b>18,791,531</b>	<b>17,178,988</b>

- In September 2014, the Bank issued bonds amounting USD 500 million (TL 2,970,350). The bond is subject to annual fixed interest payment of 5.000% every six months and the total maturity is seven years.
- In February 2016, the Bank issued bonds amounting USD 500 million (TL 2,970,350). The bond is subject to annual fixed interest payment of 5.375% every six months and the total maturity is five years.
- In October 2016, the Bank issued bonds amounting USD 500 million (TL 2,970,350). The bond is subject to annual fixed interest payment of 5.375% every six months and the total maturity is seven years.
- In September 2017, the Bank issued bonds amounting USD 500 million (TL 2,970,350). The bond is subject to annual fixed interest payment of 4.250% every six months and the total maturity is five years.
- In May 2018, the Bank issued bonds amounting USD 500 million (TL 2,970,350). The bond is subject to annual fixed interest payment of 6.125% every six months and the total maturity is six years.
- In January 2019, the Bank issued bonds amounting USD 500 million (TL 2,970,350). The bond is subject to annual fixed interest payment of 8.25% every six months and the total maturity is five years.

Also the Bank applied hedge accounting for the measurement of derivative financial assets and liabilities which are related to the bonds issued and accounted for hedge accounting during this period.

In September 2019, the Bank issued bonds amounting TRY 256 million. The bond is subject to annual floating interest payment of every six months and the total maturity is three years.

**16 SUBORDINATED LIABILITIES**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Subordinated debt instruments (*)	2,996,129	2,995,130
Subordinated loans (**)	1,029,725	-
<b>Total</b>	<b>4,025,854</b>	<b>2,995,130</b>

(\*) In September 2018, the Bank issued subordinated debt instrument amounting TL 2,901,759 with a maturity of ten years and fixed rate of 12.54% with an early redeem option after fifth year of the date of issue. Subordinated loan includes interest expense on debt securities issued amounting to TL 94,370 (31 December 2018: TL 93,371).

(\*\*) It includes Tier II capital amounting EUR 150 million (TL 998,220) and interest expense of EUR 4,734 (TL 31,505).

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**17 TAXATION**

According to Act number 3332 and article 4/b of Act number 3659, dated 25 March 1987 and 26 September 1990, respectively, the Bank is exempt from Corporate Tax. Due to the 3<sup>rd</sup> Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states “The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520”, the exemption from Corporation Tax continues. Accordingly, current and deferred taxes are not recognised in these financial statements.

**18 OTHER LIABILITIES AND PROVISIONS**

The principal components of other liabilities are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial liabilities</b>		
Guarantees received <sup>(1)</sup>	2,213,813	1,261,766
Funds	29,411	17,374
Tax liability	18,611	14,752
Unearned revenue	6,526	474,241
Positive price difference on bonds issued	-	4,744
Other	198,632	67,490
<b>Non-financial liabilities</b>		
Insurance technical provisions	133,791	96,755
Dividend pay liabilities	49,872	37,544
BRSA expense provision	32,577	20,914
Vacation pay liability <sup>(2)</sup>	16,420	15,998
Other	13,336	42,807
	<b>2,712,989</b>	<b>2,054,385</b>

(1) Guarantees received refers to cash guarantees obtained in relation to Rediscount Credits, which have increased in line with the increase in the amount of Rediscount Credits.

(2) TL 422 of vacation pay liability provision is provided during 2019 (31 December 2018: TL 2,265).

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**19 RETIREMENT BENEFIT OBLIGATIONS**

As a result of IAS 19 (2011), the Bank started to recognise all actuarial gains and losses immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

As of 31 December 2019 actuarial gains/losses, calculated as TL 8,022 in relation to the reserve for employee termination benefits, are shown under shareholders’ equity and as TL 5,541 in relation to the current service cost and interest expense, are recognised in other comprehensive income in accordance with the change in IAS 19 (2011).

IAS 19 (2011) “Employment Benefits” requires actuarial valuation methods to be developed to estimate the enterprise’s obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2019 and 31 December 2018.

	<b>31 December 2019</b>	<b>31 December 2018</b>
Discount rate (%)	12.1	15.5
Inflation rate (%)	8.2	10.0

Movement in the reserve for employment termination benefits for the period ended 31 December 2019 and 31 December 2018 are as follows:

	<b>31 December 2019</b>	<b>31 December 2018</b>
1 January	21,855	19,116
Current service cost	2,154	1,962
Interest expense	3,387	2,175
Actuarial gains	8,022	206
Payments during the period	(5,342)	(1,604)
<b>Total</b>	<b>30,076</b>	<b>21,855</b>



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**20 SHARE CAPITAL**

The historical paid in share capital of the Bank is TL 7,160,000 (31 December 2018: TL 6,350,000) and consists of 7.16 billion (31 December 2018: 6,35 billion) authorised shares with a nominal value of TL 1 each. In 2019, the Bank has increased capital by TL 810,000 to be covered by internal resources within the framework of the registered share capital system that was implemented in 2017. The transaction has been announced in the Turkish Trade Registry Gazette dated 29 August 2019 and numbered 9898.

**Information on the share capital increase during the period and their sources**

<b>Increase date</b>	<b>Increase amount</b>	<b>Cash</b>	<b>Profit reserves used for increase</b>	<b>Capital reserves used for increase</b>
29 August 2019	810,000	-	810,000	-

The Bank has decided to use the capital stock system that is registered in the Bank in the extraordinary general meeting that took place on 27 January 2017. The decision has been submitted to the trade register and has been published on Turkey Trade Registry Gazette on 30 January 2017, Numbered 9252.

	<b>31 December 2019</b>	<b>31 December 2018</b>
Share capital - historical cost	7,160,000	6,350,000
Adjustment to share capital	38,091	38,091
<b>Total paid in share capital</b>	<b>7,198,091</b>	<b>6,388,091</b>

The Bank is fully owned by the Turkish Treasury.

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2005 after elimination of the accumulated deficit. There are no other reserves at 31 December 2019 (31 December 2018: None).

The legal reserves amounting to TL 422,618 (31 December 2018: TL 379,260) consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity’s share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity’s share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code and in accordance with the Articles of Association of the Bank, the Bank is required to create the following legal reserves from appropriations of earnings, which are available for distribution only in the event of liquidation or losses:

- First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.
- Second legal reserve, appropriated at the rate of 10% of the distribution of second dividend, in excess of the first legal reserve, appropriated at a rate of 5% and first dividend, appropriated at a rate of 8%.

*Fair value reserve*

The fair value reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the investment is derecognised or impaired.

As at 31 December 2019, such gains / (losses) recognised under equity in fair value reserves amounted to TL 28,658 (31 December 2018: TL 11,282).

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**21 NET INTEREST INCOME**

	<b>2019</b>	<b>2018</b>
<b>Interest income on:</b>		
Interest on loans and advances	4,341,340	3,046,371
Interest on deposits with banks	158,958	157,809
Interest on financial assets measured at amortized cost	348,816	113,444
Interest on interbank money market placements	3,407	70,775
Interest on financial assets measured at fair value through profit or loss	-	47
Other interest income	3,638	2,649
<b>Total interest income</b>	<b>4,856,159</b>	<b>3,391,095</b>
<b>Interest expense on:</b>		
Interest on funds borrowed	(2,255,608)	(1,526,741)
Interest on debt securities in issue	(1,450,960)	(958,449)
Other interest expenses	(35,041)	(46,441)
<b>Total interest expense</b>	<b>(3,741,609)</b>	<b>(2,531,631)</b>
<b>Net interest income</b>	<b>1,114,550</b>	<b>859,464</b>

**22 FOREIGN EXCHANGE GAINS AND LOSSES**

	<b>2019</b>	<b>2018</b>
Foreign exchange gain	45,823,520	95,709,000
Foreign exchange losses	46,329,893	96,844,887
<b>Net foreign exchange gains/(losses)</b>	<b>(506,373)</b>	<b>(1,135,887)</b>

**23 GAINS AND LOSSES ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2019</b>	<b>2018</b>
Derivative income (*)	2,555,968	2,622,384
Derivative expenses (*)	(1,422,604)	(1,304,565)
Trading income	38	1
Trading expenses	-	(70)
<b>Total</b>	<b>1,133,402</b>	<b>1,317,750</b>

(\*) Derivative income/expense include fair value hedge valuation differences amounting TL 986,252 (31 December 2018: TL 1,103,759).

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**24 OTHER OPERATING INCOME**

	<b>2019</b>	<b>2018</b>
Rent income	1,187	841
Sale of assets	154	-
Provision for securities	86	-
Other	6,362	9,814
<b>Total</b>	<b>7,789</b>	<b>10,655</b>

**25 OPERATING EXPENSES**

	<b>2019</b>	<b>2018</b>
Personnel expenses	225,572	170,115
BRSA contribution expense	39,548	25,183
KOSGEB fee <sup>(*)</sup>	29,217	17,180
Taxes and duties expenses	20,149	16,296
Depreciation and amortisation charges	9,777	3,845
Premiums paid to reinsurance companies	981	774
Employment termination benefits and unused vacation	422	5,096
Rent expenses	1	7,375
Research expenses	-	63
Other	33,879	26,534
<b>Total</b>	<b>359,546</b>	<b>272,461</b>

<sup>(\*)</sup> As the Bank’s more than 50% of the paid-in share capital is owned by the government entities, the Bank is obliged to pay annual fee at a rate of 2% of the corporate tax base of the Bank to Small and Medium Industries Development Organisation (“KOSGEB”) in accordance with the establishment law of KOSGEB.

**26 COMMITMENTS AND CONTINGENT LIABILITIES**

In the normal course of banking activities, the Bank undertakes various commitments and incurs certain contingent liabilities that are not presented in the balance sheets, including letters of guarantee, other guarantees and off-balance sheet derivative instruments. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

***Legal proceedings***

31 December 2019, there are legal proceedings outstanding against the Bank amounting to TL 20,720 and USD 576. In addition, there are legal proceedings outstanding filed by the Bank. These legal proceedings amount to TL 254,056, USD 59,424 and EUR 12,440.

The Bank has not provided a provision for these legal proceedings, since possible outflow of resources embodying economic benefits to settle these contingent liabilities will be immaterial. A number of the outstanding litigation cases in Turkish courts relate to employee bonus payments.

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**26 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

**Commitments under derivative instruments:**

The breakdown of swap transactions at 31 December 2019 and 31 December 2018 is as follows:

	Currency	31 December 2018		31 December 2018	
		Foreign currency amount	TL	Foreign currency amount	TL
<b>Transaction type</b>					
Interest rate swap purchases	USD	1,449,000	8,608,076	2,088,256	11,026,199
	EUR	186,500	1,241,120	186,500	1,126,534
Foreign currency swap purchases	USD	40,000	237,628	176,462	931,736
Foreign currency forward purchases	USD	-	-	160	844
	TL	-	-	947	947
Cross currency swaps purchases	USD	3,748,983	22,271,584	2,582,747	13,637,165
	JPY	-	-	238,000,000	1,138,973
	EUR	-	-	183,359	1,107,563
Option purchases	TL	-	-	4,330	4,330
	EUR	-	-	436	2,635
	USD	-	-	300	1,584
<b>Total purchases</b>			<b>32,358,408</b>		<b>28,978,510</b>
Interest rate swap sales	USD	1,449,000	8,608,076	2,088,256	11,026,199
	EUR	186,500	1,241,120	186,500	1,126,534
Foreign currency swap sales	EUR	-	-	144,800	874,650
	GBP	-	-	7,500	50,459
	JPY	-	-	145,896	6,982
	TL	233,015	233,015	-	-
Foreign currency forward sales	TL	-	-	944	944
	USD	-	-	160	844
Cross currency swaps sales	TL	-	-	36,220	36,220
	EUR	3,223,693	21,453,034	2,385,179	14,407,436
	JPY	131,091	7,159	238,000,000	1,138,973
	USD	14,367	95,610	-	-
Option sales	TL	-	-	4,330	4,330
	EUR	-	-	436	2,635
	USD	-	-	300	1,584
<b>Total sales</b>			<b>31,638,014</b>		<b>28,677,790</b>
<b>Total</b>			<b>63,996,422</b>		<b>57,656,300</b>

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**26 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

Maturity analysis of swap and forward transactions are as follows:

<b>31 December 2019</b>					
	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Interest rate swap purchases	412,879	3,495,617	5,940,700	-	9,849,196
Foreign currency swap purchases	237,628	-	-	-	237,628
Forward foreign currency purchases	-	-	-	-	-
Cross currency swaps purchases	3,016,442	1,188,140	13,960,645	4,106,358	22,271,584
Option purchases	-	-	-	-	-
<b>Total purchases</b>	<b>3,666,949</b>	<b>4,683,757</b>	<b>19,901,345</b>	<b>4,106,358</b>	<b>32,358,408</b>
Interest rate swap sales	412,879	3,495,617	5,940,700	-	9,849,196
Foreign currency swap sales	233,015	-	-	-	233,015
Forward foreign currency sales	-	-	-	-	-
Cross currency swaps sales	3,027,554	1,117,327	13,274,415	4,136,507	21,555,803
Option sales	-	-	-	-	-
<b>Total sales</b>	<b>3,673,448</b>	<b>4,612,944</b>	<b>19,215,115</b>	<b>4,136,507</b>	<b>31,638,014</b>

  

<b>31 December 2018</b>					
	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Interest rate swap purchases	196,710	4,229,363	7,726,660	-	12,152,733
Foreign currency swap purchases	931,736	-	-	-	931,736
Forward foreign currency purchases	1,791	-	-	-	1,791
Cross currency swaps purchases	-	2,985,749	6,336,121	6,561,831	15,883,701
Option purchases	8,549	-	-	-	8,549
<b>Total purchases</b>	<b>1,138,786</b>	<b>7,215,112</b>	<b>14,062,781</b>	<b>6,561,831</b>	<b>28,978,510</b>
Interest rate swap sales	196,710	4,229,363	7,726,660	-	12,152,733
Foreign currency swap sales	932,091	-	-	-	932,091
Forward foreign currency sales	1,788	-	-	-	1,788
Cross currency swaps sales	-	2,991,686	6,020,101	6,570,842	15,582,629
Option sales	8,549	-	-	-	8,549
<b>Total sales</b>	<b>1,139,138</b>	<b>7,221,049</b>	<b>13,746,761</b>	<b>6,570,842</b>	<b>28,677,790</b>

The above tables summarise the Bank’s derivative transactions that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date, in respective currencies. Accordingly, the difference between the “sale” and “purchase” transactions represents the net exposure of the Bank with respect to commitments arising from these transactions.

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**26 COMMITMENTS AND CONTINGENT LIABILITIES** *(continued)*

***Credit related commitments:***

Letters of guarantee, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under these guarantees are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit related commitments of the Bank at 31 December 2019 and 31 December 2018:

	<b>31 December 2019</b>	<b>31 December 2018</b>
<b>Financial guarantees</b>		
Other guarantees		
- Foreign currency (Note 4)	10,891,326	9,083,093
<b>Total financial guarantees</b>	<b>10,891,326</b>	<b>9,083,093</b>

The Bank provides cover for Turkish exporters, against credit risk by offering variety of programs.

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**27 SEGMENT ANALYSIS**

The main segments of the Bank are corporate banking and investment banking. Investment banking includes the treasury operations of the Bank whereas corporate banking includes all operations other than treasury (mainly all of the credit operations), which is reported in manner consistent with the internal reporting provided to the chief operating decision maker, the Assistant General Manager of Finance. The analysis is as follows:

<b>31 December 2019</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Segment revenue	4,773,823	1,644,653	7,430	6,425,906
Segment expenses	(2,638,529)	(1,485,276)	(870,466)	(4,994,271)
<b>Net profit</b>	<b>2,135,294</b>	<b>159,377</b>	<b>(863,036)</b>	<b>1,431,635</b>
Interest income	4,344,978	511,181	-	4,856,159
Interest expense	(2,285,542)	(1,453,043)	(3,024)	(3,741,609)
Depreciation and amortisation	-	-	(9,777)	(9,777)
Impairment charges on loans	(131,863)	(1,134)	(422)	(133,419)
<b>Total segment assets</b>	<b>142,342,072</b>	<b>18,489,474</b>	<b>1,227,363</b>	<b>162,058,909</b>
Segment liabilities	127,310,483	22,817,385	2,850,014	152,977,882
Equity	-	77,657	9,003,370	9,081,027
<b>Total liabilities and equity</b>	<b>127,310,483</b>	<b>22,895,042</b>	<b>11,853,384</b>	<b>162,058,909</b>
<b>31 December 2018</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Segment revenue	3,407,474	1,659,976	2,342	5,069,792
Segment expenses	(1,832,341)	(970,638)	(1,451,950)	(4,254,929)
<b>Net profit</b>	<b>1,575,133</b>	<b>689,338</b>	<b>(1,449,608)</b>	<b>814,863</b>
Interest income	3,049,020	342,075	-	3,391,095
Interest expense	(1,572,254)	(959,377)	-	(2,531,631)
Depreciation and amortisation	-	-	(3,845)	(3,845)
Impairment charges on loans	(108,635)	-	-	(108,635)
<b>Total segment assets</b>	<b>129,670,051</b>	<b>8,216,566</b>	<b>1,349,134</b>	<b>139,235,751</b>
Segment liabilities	111,865,083	17,647,843	2,076,240	131,589,166
Equity	-	60,515	7,586,070	7,646,585
<b>Total liabilities and equity</b>	<b>111,865,083</b>	<b>17,708,358</b>	<b>9,662,310</b>	<b>139,235,751</b>

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**27 SEGMENT ANALYSIS (continued)**

Reconciliation of segment results of operations to:

<b>31 December 2019</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest income	4,344,978	511,181	-	4,856,159
Fee and commissions income	421,056	-	7,430	428,486
Gains on financial instruments measured at fair value profit or loss	-	1,133,402	-	1,133,402
Other operating income	7,789	70	-	7,859
<b>Total segment revenue</b>	<b>4,773,823</b>	<b>1,644,653</b>	<b>7,430</b>	<b>6,425,906</b>

<b>31 December 2019</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest expense	(2,285,542)	(1,453,043)	(3,024)	(3,741,609)
Fee and commissions expense	(221,124)	(31,099)	(1,101)	(253,324)
Impairment charges on loans	(131,863)	(1,134)	(422)	(133,419)
Losses on financial instruments measured at fair value profit or loss	-	-	-	-
Foreign exchange losses	-	-	(506,373)	(506,373)
Other operating expenses	-	-	(359,546)	(359,546)
<b>Total segment expense</b>	<b>(2,638,529)</b>	<b>(1,485,276)</b>	<b>(870,466)</b>	<b>(4,994,271)</b>

<b>31 December 2018</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest income	3,049,020	342,075	-	3,391,095
Fee and commissions income	347,799	-	2,342	350,141
Gains on financial instruments measured at fair value profit or loss	-	1,317,750	-	1,317,750
Other operating income	10,655	151	-	10,806
<b>Total segment revenue</b>	<b>3,407,474</b>	<b>1,659,976</b>	<b>2,342</b>	<b>5,069,792</b>

<b>31 December 2018</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest expense	(1,572,254)	(959,377)	-	(2,531,631)
Fee and commissions expense	(183,445)	(11,261)	(11,609)	(206,315)
Impairment charges on loans	-	-	(108,635)	(108,635)
Losses on financial instruments measured at fair value profit or loss	-	-	-	-
Foreign exchange losses	-	-	(1,135,887)	(1,135,887)
Other operating expenses	-	-	(272,461)	(272,461)
<b>Total segment expense</b>	<b>(1,755,699)</b>	<b>(970,638)</b>	<b>(1,528,592)</b>	<b>(4,254,929)</b>



**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019**

(Amounts expressed in thousands of Turkish Lira (“TL”), unless otherwise indicated)

**28 RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party, is under common control or can exercise significant influence over the other party in making financial or operational decisions. For the purpose of this financial information the shareholders of the Bank together with state-controlled entities in Turkey are considered and referred to as related parties. Other related parties refer to entities controlled, jointly controlled or having significance influence by the Turkish Government.

A number of banking transactions were entered into with related parties in the normal course of business.

**(a) Balances with related parties:**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Due from banks:		
- Other related parties <sup>(1)</sup>	8,725,384	301,087
Loans and advances:		
- Other related parties <sup>(2)</sup>	4,766,578	3,495,686
Investment securities		
- Shareholder <sup>(3)</sup>	7,089,499	3,249,722
Funds borrowed		
- Other related parties <sup>(4)</sup>	93,999,658	75,982,756
Other liabilities		
- Other related parties	20,598	1,650

<sup>(1)</sup> Average interest rate for due from banks for USD and TL are respectively 1.65% and 11.13% (31 December 2018: 23.27% for TL)

<sup>(2)</sup> Average interest rate for loans and advances are 9.29% (31 December 2018: 7.30%)

<sup>(3)</sup> Average interest rate for investment securities is 7.31% (31 December 2018: 9.83%)

<sup>(4)</sup> Average interest rate for funds borrowed is 1.54% (31 December 2018: 1.25%)

**(b) Transactions with related parties:**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Interest income on investment securities:		
- Shareholder	305,157	113,491
Interest income on loans and advances:		
- Other related parties	207,278	83,477
Interest expense on funds borrowed:		
- Other related parties	964,621	659,596
Operating expenses (taxes paid)		
-Other related parties	20,149	16,296

**(c) Remuneration of key management personnel:**

	<b>31 December 2019</b>	<b>31 December 2018</b>
Salaries and other short-term employee benefits	5,876	3,575

**29 EVENTS AFTER THE REPORTING PERIOD**

None.