

**Türkiye İhracat Kredi Bankası  
Anonim Şirketi**

Financial Statements  
As At and For The Year Ended  
31 December 2014  
With Independent Auditors' Report Thereon

11 February 2015

*This report contains the "Independent Auditors' Report on Financial Statements" comprising 1 page and; the "Financial statements and their explanatory notes" comprising 67 pages.*

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**Independent Auditors' Report**

To the Board of Directors of Türkiye İhracat Kredi Bankası AŞ

*Introduction*

We have audited the accompanying financial statements of Türkiye İhracat Kredi Bankası AŞ (the "Bank"), which comprise the statement of financial position as at 31 December 2014, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

*Auditors' responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ  
A member of KPMG International Cooperative

Alper Güvenç  
Partner

11 February 2015  
İstanbul, Türkiye

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2014**

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

	<i>Notes</i>	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>ASSETS</b>			
Cash and due from banks	6	1,066,753	1,019,385
Trading securities	7	51,283	113,270
Derivative financial instruments	8	20,641	58,776
Derivative assets held for risk management	4	91,602	13,803
Loans and advances to customers	9	31,741,495	22,795,293
Investment securities			
- Available-for-sale	10	20,538	17,351
- Held-to-maturity	10	296,954	238,371
Property and equipment	11	18,571	18,871
Intangible assets	12	1,873	538
Other assets	13	273,682	284,861
<b>Total assets</b>		<b>33,583,392</b>	<b>24,560,519</b>
<b>LIABILITIES</b>			
Funds borrowed	14	24,387,152	17,286,700
Debt securities in issue	14	4,054,191	2,604,828
Interbank money market deposits	14	220,064	163,945
Other liabilities and provisions	16	570,768	504,702
Derivative financial instruments	8	2,260	46,211
Derivative liabilities held for risk management	4	18,938	39,272
Retirement benefit obligations	17	14,301	12,193
<b>Total liabilities</b>		<b>29,267,674</b>	<b>20,657,851</b>
<b>EQUITY</b>			
	18		
- Share capital		2,400,000	2,200,000
- Adjustment to share capital		812,518	812,518
Total paid in share capital		3,212,518	3,012,518
Legal reserves		280,954	268,093
Other reserve		22,743	22,743
Fair value reserves		11,383	8,221
Retained earnings		788,120	591,093
<b>Total equity</b>		<b>4,315,718</b>	<b>3,902,668</b>
<b>Total liabilities and equity</b>		<b>33,583,392</b>	<b>24,560,519</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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

	<i>Notes</i>	<b>1 January - 31 December 2014</b>	<b>1 January - 31 December 2013</b>
Interest income	<i>19</i>	962,847	603,088
Interest expense	<i>19</i>	(333,491)	(218,900)
<b>Net interest income</b>		<b>629,356</b>	<b>384,188</b>
Fee and commission income		35,365	4,159
Fee and commission expense		(5,586)	(5,333)
<b>Net fee and commission income</b>		<b>29,779</b>	<b>(1,174)</b>
Impairment losses on loans and advances, net	<i>9</i>	(10,000)	(5,122)
Foreign exchange gain / (losses), net	<i>20</i>	(201,834)	(220,466)
Gains/(losses) on financial instruments classified as held for trading, net	<i>21</i>	36,906	148,178
Other operating income	<i>22</i>	117,930	86,840
<b>Operating profit before operating expenses</b>		<b>602,137</b>	<b>392,444</b>
Operating expenses	<i>23</i>	(173,258)	(146,515)
<b>Net profit for the period</b>		<b>428,879</b>	<b>245,929</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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

	<i>Notes</i>	<b>1 January - 31 December 2014</b>	<b>1 January - 31 December 2013</b>
<b>Net profit for the period</b>		<b>428,879</b>	<b>245,929</b>
<b>Other comprehensive income</b>		-	-
<i>Items that will never be reclassified to profit or loss</i>		-	-
Net change in remeasurements of defined benefit liability		(1,045)	(404)
<i>Items that are or may be reclassified to profit or loss</i>		3,162	(2,061)
Net change in fair values of available-for-sale financial assets		3,187	(2,029)
Amortisation of the fair value gains of held to maturity investments previously classified as available-for-sale financial assets		(25)	(32)
<b>Total comprehensive income for the period</b>		<b>430,996</b>	<b>243,464</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 2014**

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

	<i>Notes</i>	<b>1 January – 31 December 2014</b>	<b>1 January – 31 December 2013</b>
<b>Cash flows from operating activities:</b>			
Net profit for the period		428,879	245,929
<b>Adjustments for:</b>			
Depreciation and amortisation	<i>23</i>	6,657	4,132
Provision for loan losses	<i>9</i>	10,000	5,122
Provision for employment termination benefits	<i>17</i>	1,881	1,160
Provision for unused vacation	<i>16</i>	1,163	29
Decrease in the fair value of trading securities		-	(16,669)
Net gain on sale of asset held for sale		-	(18,772)
Interest income, net	<i>19</i>	(629,356)	(384,188)
Interest paid		(316,073)	(195,951)
Interest received		937,768	600,464
Unrealised foreign exchange differences		133,393	404,422
Remeasurement of derivative financial instruments		(24,621)	101,223
		<b>549,691</b>	<b>746,901</b>
Net increase in loans and advances to customers		(8,842,226)	(9,676,712)
Net decrease in trading securities		90,614	252,409
Net (increase)/decrease in due from banks		(762)	934
Proceeds from borrowings		39,972,399	34,493,285
Repayments of borrowings		(32,871,947)	(26,247,489)
Net decrease/(increase) in other assets		7,631	(321,142)
Net increase in other liabilities		24,313	287,735
<b>Net cash used in operating activities</b>		<b>(1,070,287)</b>	<b>(464,079)</b>
<b>Cash flows from/(used in) investing activities:</b>			
Purchases of property and equipment	<i>11</i>	(5,952)	(6,394)
Proceeds from property and equipment	<i>11</i>	40	10,225
Purchases of investment securities	<i>10</i>	(5,073)	(100,026)
Redemption of investment securities	<i>10</i>	41,648	161,732
Purchases of intangible assets	<i>12</i>	(1,780)	(347)
<b>Net cash generated from investing activities</b>		<b>28,883</b>	<b>65,190</b>
<b>Cash flows from/(used in) financing activities:</b>			
Proceeds from interbank money market deposit		56,119	153,843
Proceeds from issuance of debt securities		1,022,927	(30,500)
Dividends paid	<i>18</i>	(17,946)	(16,961)
<b>Net cash from financing activities</b>		<b>1,061,100</b>	<b>106,382</b>
Effects of exchange-rate changes on cash and cash equivalents		26,910	97,275
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>46,606</b>	<b>(195,232)</b>
Cash and cash equivalents at the beginning of the period		1,019,325	1,214,557
<b>Cash and cash equivalents at the end of the period</b>		<b>1,065,931</b>	<b>1,019,325</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED 31 DECEMBER 2014**

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

	Notes	Share capital		Total paid-in capital	Legal reserves	Other reserve	Fair value reserves	Retained earnings	Total equity
		Share capital	Adjustment to share capital						
<b>Balance at 1 January 2013</b>	18	2,000,000	812,518	2,812,518	256,388	22,743	10,282	574,234	3,676,165
Profit for the period		-	-	-	-	-	-	245,929	245,929
Other comprehensive income for the period		-	-	-	-	-	(2,061)	(404)	(2,465)
<b>Total comprehensive income</b>		-	-	-	-	-	<b>(2,061)</b>	<b>245,525</b>	<b>243,464</b>
Capital increase		200,000	-	200,000	-	-	-	(200,000)	-
Dividends paid	18	-	-	-	-	-	-	(16,961)	(16,961)
Transfers to legal reserves		-	-	-	11,705	-	-	(11,705)	-
<b>Balance at 31 December 2013</b>		<b>2,200,000</b>	<b>812,518</b>	<b>3,012,518</b>	<b>268,093</b>	<b>22,743</b>	<b>8,221</b>	<b>591,093</b>	<b>3,902,668</b>
<b>Balance at 1 January 2014</b>		<b>2,200,000</b>	<b>812,518</b>	<b>3,012,518</b>	<b>268,093</b>	<b>22,743</b>	<b>8,221</b>	<b>591,093</b>	<b>3,902,668</b>
Profit for the period		-	-	-	-	-	-	428,879	428,879
Other comprehensive income for the period		-	-	-	-	-	3,162	(1,045)	2,117
<b>Total comprehensive income</b>		-	-	-	-	-	<b>3,162</b>	<b>427,834</b>	<b>430,996</b>
Capital increase	18	200,000	-	200,000	-	-	-	(200,000)	-
Dividends paid	18	-	-	-	-	-	-	(17,946)	(17,946)
Transfers to legal reserves	-	-	-	-	12,861	-	-	(12,861)	-
Other	-	-	-	-	-	-	-	-	-
<b>Balance at 31 December 2014</b>	18	<b>2,400,000</b>	<b>812,518</b>	<b>3,212,518</b>	<b>280,954</b>	<b>22,743</b>	<b>11,383</b>	<b>788,120</b>	<b>4,315,718</b>

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



# **TÜRKİYE İHRACAT KREDİ BANKASI AŞ**

## **NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

*(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, Üntel Sokak 19 Ümraniye İstanbul/Türkiye. As of 31 December 2014, the Bank has 2 branches in Ankara and Izmir and 7 liaison offices in Bursa, Adana, Trabzon, Denizli, Kayseri, Gaziantep and Konya. As of 31 December 2014, the Bank employed 524 people (31 December 2013: 483 people).

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 number 3659 and according to Act regarding the Public Financing and Debt Management, number 4749, dated 28 March 2002.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**2 Basis of preparation**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank maintain its books of account and prepare their 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.

The financial statements as at 31 December 2014 of the Bank are authorised for issue by the management on 11 February 2015. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

**(b) Basis of measurement**

The financial statements are 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: derivative financial assets and liabilities, financial assets at fair value through profit or loss and available for sale financial assets.

**(c) 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.

**(d) 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.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**2 Basis of preparation** *(continued)*

**(e) 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.

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 8 – Derivative financial instruments
- Note 9 – Loans and advances to customers
- Note 16 – Other liabilities and provisions

**2.1. Changes in accounting policies**

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 3 to all periods presented in these financial statements.

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Offsetting Financial Assets and Financial Liabilities *(Amendments to IAS 32)*
- IFRIC 21 Levies

**Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

As a result of the amendments to IAS 32, the Bank has changed its accounting policy for offsetting financial assets and financial liabilities. The amendments clarify when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The change did not have a material impact on the Bank’s financial statements.

**IFRIC 21 Levies**

As a result of IFRIC 21 Levies, the Bank has changed its accounting policy on accounting for a liability to pay a levy that is a liability in the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The change did not have a material impact on the Bank’s financial statements.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**2 Basis of preparation** *(continued)*

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

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2015; however, the Bank has not applied the following new or amended standards in preparing these financial statements.

***IFRS 9 - Financial Instruments***

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Given the nature of the Bank’s operations, this standard is expected to have a impact on the Bank’s financial statements.

***IFRS 15 - Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

The following new or amended standards are not expected to have a significant impact of the Bank’s financial statements.

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.
- IFRS 14 Regulatory Deferral Accounts.
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Equity Method in Separate Financial Statements (Amendments to IAS 27).
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**3 Significant accounting policies**

Except the changes disclosed in Note 2.1, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**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 2014	2.8255	2.3249
31 December 2013	2.9143	2.1164

*ii) Foreign operations*

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

**3.2 Interest**

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 OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for available-for-sale investment securities calculated on an effective interest basis,

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**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 commission, placement fees and syndication fees are recognised as the related services are provided. 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.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

*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 70%) 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 available for sale securities.

**3.5 Dividends**

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

**3.6 Lease payments made**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest rate on the remaining balance of the liability.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**3 Significant accounting policies** *(continued)*

**3.7 Income tax expense**

Income tax expense comprises current and deferred tax. Current tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in profit or loss and other comprehensive income.

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, deferred tax asset or liability is not recognised in these financial statements.

**3.8 Financial assets and liabilities**

*Recognition*

The Bank initially recognises loans and advances and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

*Classification*

Financial assets:

The Bank classifies its financial assets into one of the following categories:

Loans and receivables

Held to maturity

Available-for-sale; and

At fair value through profit or loss, and within this category as:

- Held for trading.

See 3.10, 3.11 and 3.12.

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**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**3 Significant accounting policies** *(continued)*

**3.8 Financial assets and liabilities** *(continued)*

*Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

*Offsetting*

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank’s trading activity.



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**3 Significant accounting policies** *(continued)*

**3.8 Financial assets and liabilities** *(continued)*

*Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

*Derivative financial instruments*

The Bank enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Bank’s risk management policies. The Bank classifies its derivative instruments except for derivatives held for cash flow hedges as “Held-for-hedging” or “Held-for-trading” in accordance with “Financial Instruments: International Accounting Standard for Recognition and Measurement (“IAS 39”)”. According to this, certain derivative transactions while providing effective economic hedges under the Bank’s risk management position, are recorded under the specific rules of IAS 39 and are treated as derivatives “Held-for-trading”. 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 account.

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%.

In case the cash flow hedge accounting is discontinued due to the expiry, realization for sale of the hedging instrument, discontinuing or due to the results of the effectiveness test the amounts accounted under shareholders’ equity are transferred to the profit and loss accounts as these cash flows of the hedged item are realized.

# TÜRKİYE İHRACAT KREDİ BANKASI AŞ

## NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014

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

### 3 Significant accounting policies (continued)

#### 3.8 Financial assets and liabilities (continued)

##### *Identification and measurement of impairment*

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.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

##### *Repurchase and resale transactions*

The Bank enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

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

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**3 Significant accounting policies** *(continued)*

**3.9 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.

**3.10 Trading assets and liabilities**

‘Trading assets and liabilities’ are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. Any gains or losses resulting from such valuation are recorded in profit and loss. Any positive difference between the historical cost and amortised cost of financial assets are recognised under the “Interest Income” account, and in case the fair value of the asset is over the amortised cost, the positive difference is recognised in the “Gains and Losses on Financial Instruments Classified as Held for Trading – Trading Income” account. If the fair value is less than the amortised cost, the negative difference is recognised under the “Gains and Losses on Financial Instruments Classified as Held for Trading – Trading Expense” account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognised within the framework of the same principles. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

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**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**3 Significant accounting policies** *(continued)*

**3.11 Loans and advances**

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorised as loans originated by the Bank and are carried at amortised cost, net of any provision for impairment losses. All originated loans are recognised when cash is advanced to borrowers. Cash guarantees received for loans and advances given are recorded under “other liabilities” upon receipt and repaid back to the borrower on the maturity date when the Bank collects all amounts due.

A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including the amount recoverable from guarantees and collateral, discounted based on the original effective interest rate. The level of the provision is also based on applicable banking regulations. An additional provision for loan impairment is established to cover losses that are judged to be present in the lending portfolio at the balance sheet date, but which have not been specifically identified as such.

The provision made during the year is charged against the income for the year. Loans that cannot be recovered are written off against the allowance for impairment losses. Such loans are written off after all the necessary legal proceedings have been completed and the amount of the loan loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from provision for impairment losses for the period.

**3.12 Investment securities**

*Held-to-maturity*

Held-to-maturity securities are financial assets with fixed maturities that the Bank has the intent and ability to hold until maturity. Investment securities held-to-maturity is initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in profit or loss.

*Available-for-sale financial investments*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the “Available-for-sale reserve”.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the balance in other comprehensive income is recognised in profit or loss.

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**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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**3 Significant accounting policies (continued)**

**3.13 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
Vehicles, machinery and equipment	4 - 16 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.

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**3 Significant accounting policies** *(continued)*

**3.14 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.

**3.15 Assets held for sale**

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

**3.16 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 Bank that generates cash flows that largely are independent from other assets and Banks. 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 (Bank 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.

**3.17 Funds borrowed**

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

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**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2014**

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

**3 Significant accounting policies** *(continued)*

**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.

**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 INFORMATION AS AT 31 DECEMBER 2014

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### 4 FINANCIAL RISK MANAGEMENT

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

As of 31 December 2014, the loan portfolio of the Bank constitutes 95% (31 December 2013: 93%) of total assets. In short, medium and long term lending (except for fund sourced 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.

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 Bankings, 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.



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**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 2014		31 December 2013	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Neither past due nor impaired	31,832,635	6,017	22,907,998	5,480
Past due but not impaired	31,825	-	10,797	-
Individually impaired	127,478	-	117,478	-
<b>Total loans and advances to customers</b>	<b>31,991,938</b>	<b>6,017</b>	<b>23,036,273</b>	<b>5,480</b>
Allowance for impairment losses	(256,460)	-	(246,460)	-
<b>Net loans and advances to customers</b>	<b>31,735,478</b>	<b>6,017</b>	<b>22,789,813</b>	<b>5,480</b>

As of 31 December 2014 and 31 December 2013, loans and advances that are past due but not impaired are as follows:

	31 December 2014	31 December 2013
Past due up to 30 days	5,216	-
Past due 30-60 days	3,380	-
Past due 60-90 days	3,259	288
Past due 90 days-one year	13,331	311
Past due over one year	6,639	10,198
<b>Total loans and advances that are past due but not impaired</b>	<b>31,825</b>	<b>10,797</b>

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**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 2014		31 December 2013	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Standard loans and advances	31,843,694	6,017	22,879,108	5,480
Loans and advances under close monitoring <sup>(1)</sup>	20,766	-	39,687	-
Impaired loans and advances	127,478	-	117,478	-
<b>Total loans and advances to customers</b>	<b>31,991,938</b>	<b>6,017</b>	<b>23,036,273</b>	<b>5,480</b>
Allowance for impairment losses	(256,460)	-	(246,460)	-
<b>Net loans and advances to customers</b>	<b>31,735,478</b>	<b>6,017</b>	<b>22,789,813</b>	<b>5,480</b>

<sup>(1)</sup> As of 31 December 2014, loans and advances under close monitoring includes loans amounting to TL 20,766 (31 December 2013: TL 39,687) that were not past due but had been extended to customers whose other loans are under close monitoring.

As of 31 December 2014 and 31 December 2013, the fair value of collaterals held for total loans and advances are as follows:

	31 December 2014		31 December 2013	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Loans guaranteed by other banks	27,544,427	-	17,983,904	-
Loans guaranteed by Turkish Treasury	-	-	871	-
Loans guaranteed by a third party	-	6,006	-	5,480
<b>Total</b>	<b>27,544,427</b>	<b>6,006</b>	<b>17,984,775</b>	<b>5,480</b>
Unsecured exposures <sup>(1)</sup>	6,143,222	-	5,051,498	-
<b>Total loans and advances to customers</b>	<b>33,687,649</b>	<b>6,006</b>	<b>23,036,273</b>	<b>5,480</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 2014, the Bank does not have repossessed collateral (31 December 2013: None).

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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 system**

*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 banking Banks and acceptable intervals for standard ratios are defined.

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

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

As of 31 December 2014, loans granted by the Bank to banks and other financial institutions amount to TL 4,763,694 (31 December 2013: TL 5,136,640). As of 31 December 2014 and 31 December 2013, 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 Banks of the Bank are as follows:

		<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>Rating class</b>	<b>Concentration level (%)</b>	<b>Concentration level (%)</b>
Low	1-2	62	69
Medium	3	17	18
High	4	21	13

**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)

*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 Bank 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 Bank risk as well. The Bank does not utilise a separate rating system regarding the risk assessment of the companies.

As of 31 December 2014 and 31 December 2013, the analysis of credit limits for top 60 corporate customers constituting approximately 45% and 57%, respectively of total loans to corporate customers amounting to TL 14,336,612 (31 December 2013: TL 12,889,936) and whose loans are neither past due nor impaired at 31 December 2014 and 31 December 2013 is as follows;

<b>Credit limits (TL)</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>Concentration level (%)</b>	<b>Concentration level (%)</b>
0 - 20,000	-	-
20,000 - 40,000	-	-
40,000 - 60,000	-	-
Over 60,000	100	100
<b>Total</b>	<b>100</b>	<b>100</b>

As of 31 December 2014 and 31 December 2013, the classification and allowance percentages of the loans and advances of the Bank are as follows:

	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Loans and advances (%)</b>	<b>Allowance for loan losses (%)</b>	<b>Loans and advances (%)</b>	<b>Allowance for loan losses (%)</b>
Standard loans and advances	99.54	0.40	99.32	0.55
Loans and advances under close monitoring	0.06	0.01	0.17	0.01
Impaired loans and advances	0.40	0.40	0.51	0.51
<b>Total</b>	<b>100.00</b>	<b>0.81</b>	<b>100.00</b>	<b>1.07</b>

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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 Bank’s maximum exposure to credit risk as of 31 December 2014 and 31 December 2013:

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Credit risk exposures relating to on-balance sheet assets:</b>		
Due from banks	1,066,753	1,019,385
Loans and advances to		
- Domestic banks and other financial institutions	4,366,618	4,934,020
- Foreign banks and other financial institutions	397,076	202,620
- Corporate customers other than banks and financial institutions and personnel	26,977,801	17,658,653
Derivative assets held for trading	20,641	58,776
Derivative assets held for risk management	91,602	13,803
Trading securities	51,283	113,270
Investment securities		
-Held-to-maturity	296,954	238,371
<b>Credit risk exposures relating to off-balance sheet items:</b>		
Financial guarantees	1,613,307	1,219,632
<b>Total</b>	<b>34,882,035</b>	<b>25,458,530</b>

There are no financial assets that are past due but not impaired and there are no past due or impaired financial assets at 31 December 2014 and 31 December 2013, other than loans and advances explained above. As of 31 December 2014 and 31 December 2013, the trading securities and investment securities (held to maturity securities) are issued by the Turkish Treasury, the controlling shareholder of the Bank.

The table below shows the concentration level of due from banks for domestic banks and financial institutions which constitute approximately 98% of due from banks account at 31 December 2014 and 90% of due from banks account at 31 December 2013;

		<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>Rating class</b>	<b>Concentration level (%)</b>	<b>Concentration level (%)</b>
Low	1-2	78	67
Medium	3	20	29
High	4	2	4

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

**4 FINANCIAL RISK MANAGEMENT** (continued)

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

As of 31 December 2014 and 31 December 2013, 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	1,051,522	9,051	455	5,725	-	1,066,753
Loans and advances to						
- Domestic banks and other financial institutions	4,366,618	-	-	-	-	4,366,618
- Foreign banks and other financial institutions	-	-	-	-	397,076	397,076
- Corporate customers and personnel	26,977,801	-	-	-	-	26,977,801
Trading securities	51,283	-	-	-	-	51,283
Derivative assets held for trading	-	20,641	-	-	-	20,641
Derivative assets held for risk management	-	91,602	-	-	-	91,602
Investment securities						
- Held-to-maturity	296,954	-	-	-	-	296,954
<b>As of 31 December 2014</b>	<b>32,744,178</b>	<b>121,294</b>	<b>455</b>	<b>5,725</b>	<b>397,076</b>	<b>33,268,728</b>

	Turkey	EU countries	OECD countries <sup>(1)</sup>	USA	Other countries	Total
Cash and due from banks	917,529	3,295	38,539	12,171	47,851	1,019,385
Loans and advances to						
- Domestic banks and other financial institutions	4,934,020	-	-	-	-	4,934,020
- Foreign banks and other financial institutions	-	-	-	-	202,620	202,620
- Corporate customers and personnel	17,658,653	-	-	-	-	17,658,653
Trading securities	113,270	-	-	-	-	113,270
Derivative assets held for trading	-	58,776	-	-	-	58,776
Derivative assets held for risk management	-	13,803	-	-	-	13,803
Investment securities						
- Held-to-maturity	238,371	-	-	-	-	238,371
<b>As of 31 December 2013</b>	<b>23,861,843</b>	<b>75,874</b>	<b>38,539</b>	<b>12,171</b>	<b>250,471</b>	<b>24,238,898</b>

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

**(c) Market risk**

The Bank marks to market all its Turkish lira and foreign currency trading security positions as a result of its daily financial activities in order to be able to hedge market risk. In order to limit any possible losses from market risk, the Bank applies a maximum daily transaction and stop/loss limits for all trading Turkish lira and foreign currency transactions including marketable security transactions; such limits are approved by the Board of Directors.

**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)

**(c) Market risk** (continued)

**Sensitivity tests**

In accordance with the mission of the Bank, the Bank does not follow a profit oriented strategy but rather follows a strategy aiming to avoid the eroding effects of inflation on the share capital by making reasonable amount of profit. Under this framework, necessary changes to loan interest rates are made considering the changes in cost of funds and market interest rates; changes in the interest rates are made using the expected year-end inflation levels as break-even point considering the return on equity at the same time. In this context, the sensitivity analysis are also prepared under various scenarios (optimistic, pessimistic and normal) and also under abnormal fluctuation (stress) assumptions which measure the sensitivity of the net profit to the changes in market interest rates and the Bank’s loan interest rates. Moreover, possible losses arising from interest rate and foreign exchange risk are calculated under various scenarios and in order to minimise possible losses, the Bank undertakes swap transactions (especially money and interest swaps).

The market risk table of calculated market risk at month ends (for one day) for the period ended 31 December 2014 and 31 December 2013, as per the statutory financial statements prepared for BRSA reporting purposes within the scope of “Regulation on Measurement and Assessment of Capital Adequacy of Banks” published in Official Gazette no. 26333 dated 1 November 2006 showing the maximum and minimum total amount subject to market risk among the twelve months of calculated market risk for each year and the average of the total amount subject to market risk for each month end for 12 months are as follows:

	31 December 2014			31 December 2013		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	22,056	33,990	12,162	32,870	66,972	19,954
Equity share risk	-	-	-	-	-	-
Currency risk	104,343	123,577	4,815	74,075	102,685	55,333
Option risk	84	219	-	30	166	16
Counterparty credit risk	1,324	2,714	559	2,322	2,645	1,934
Total capital to be employed for market risk (A)	127,807	160,500	17,536	109,297	172,468	77,237
<b>Total amount subject to market risk (A*12.5)</b>	<b>1,597,588</b>	<b>2,006,250</b>	<b>219,200</b>	<b>1,366,213</b>	<b>2,155,850</b>	<b>965,463</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.

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

**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 2014 and 31 December 2013.

	31 December 2014				
	USD	EUR	Other	TL	Total
Cash and due from banks	580,065	57,752	5,489	423,447	<b>1,066,753</b>
Trading securities	8,105	-	579	42,599	<b>51,283</b>
Derivative financial instruments	17,447	-	-	3,194	<b>20,641</b>
Derivative assets held for risk management	10,242	-	-	81,360	<b>91,602</b>
Loans and advances to customers	16,796,378	8,652,615	26,277	6,266,225	<b>31,741,495</b>
Investment securities					
- Available-for-sale	-	-	-	20,538	<b>20,538</b>
- Held-to-maturity	47,573	-	-	249,381	<b>296,954</b>
Property and equipment and intangible assets	-	-	-	20,444	<b>20,444</b>
Other assets	47,889	200,871	29	24,893	<b>273,682</b>
<b>Total assets</b>	<b>17,507,699</b>	<b>8,911,238</b>	<b>32,374</b>	<b>7,132,081</b>	<b>33,583,392</b>
Funds borrowed	16,226,926	8,155,185	5,041	-	<b>24,387,152</b>
Debt securities in issue	4,054,191	-	-	-	<b>4,054,191</b>
Interbank money market deposits	-	-	-	220,064	<b>220,064</b>
Derivative financial instruments	1,915	-	-	345	<b>2,260</b>
Derivative liabilities held for risk management	17,394	-	-	1,544	<b>18,938</b>
Other liabilities	258,959	262,624	476	48,709	<b>570,768</b>
Reserve for employment termination					
Benefits	-	-	-	14,301	<b>14,301</b>
Equity	10	-	-	4,315,708	<b>4,315,718</b>
<b>Total liabilities and equity</b>	<b>20,559,395</b>	<b>8,417,809</b>	<b>5,517</b>	<b>4,600,671</b>	<b>33,583,392</b>
<b>Net balance sheet position</b>	<b>(3,051,696)</b>	<b>493,429</b>	<b>26,857</b>	<b>2,531,410</b>	<b>-</b>
<b>Off balance sheet derivative instruments net notional position</b>	<b>3,060,646</b>	<b>(493,626)</b>	<b>(15,257)</b>	<b>(2,734,008)</b>	<b>(182,245)</b>

At 31 December 2014, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 2.3249 = US Dollar 1 (“USD”) and TL 2.8255 = EUR 1.



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

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

	31 December 2013				Total
	USD	EUR	Other	TL	
Cash and due from banks	566,749	254,163	3,015	195,458	1,019,385
Trading securities	64,081	-	-	49,189	113,270
Derivative financial instruments	10,949	-	-	47,827	58,776
Derivative assets held for risk management	13,803	-	-	-	13,803
Loans and advances to customers	11,642,721	5,935,513	19,263	5,197,796	22,795,293
Investment securities					
- Available-for-sale	-	-	-	17,351	17,351
- Held-to-maturity	45,053	-	-	193,318	238,371
Property and equipment and intangible assets	-	-	-	19,409	19,409
Other assets	32,861	187,512	29	64,459	284,861
<b>Total assets</b>	<b>12,376,217</b>	<b>6,377,188</b>	<b>22,307</b>	<b>5,784,807</b>	<b>24,560,519</b>
Funds borrowed	11,401,727	5,877,433	7,540	-	17,286,700
Debt securities in issue	2,604,828	-	-	-	2,604,828
Interbank money market deposits	-	-	-	163,945	163,945
Derivative financial instruments	44,954	-	-	1,257	46,211
Derivative liabilities held for risk management	39,272	-	-	-	39,272
Other liabilities	296,055	208,334	313	-	504,702
Reserve for employment termination Benefits	-	-	-	12,193	12,193
Equity	35	-	-	3,902,633	3,902,668
<b>Total liabilities and equity</b>	<b>14,386,871</b>	<b>6,085,767</b>	<b>7,853</b>	<b>4,080,028</b>	<b>24,560,519</b>
<b>Net balance sheet position</b>	<b>(2,010,654)</b>	<b>291,421</b>	<b>14,454</b>	<b>1,704,779</b>	<b>-</b>
<b>Off balance sheet derivative instruments net notional position</b>	<b>1,901,331</b>	<b>(284,738)</b>	<b>-</b>	<b>(1,651,207)</b>	<b>(34,614)</b>

At 31 December 2013, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 2.1164 = US Dollar 1 (“USD”) and TL 2.9143= EUR 1.

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**4 FINANCIAL RISK MANAGEMENT** (continued)

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

As of 31 December 2014 and 31 December 2013, 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 2014		31 December 2013	
	Effect on net profit	Effect on equity <sup>(1)</sup>	Effect on net profit	Effect on equity <sup>(1)</sup>
USD	895	895	(10,932)	(10,932)
EUR	(20)	(20)	668	668
Other currencies	1,160	1,160	1,445	1,445
<b>Total</b>	<b>2,035</b>	<b>2,035</b>	<b>(8,819)</b>	<b>(8,819)</b>

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

As of 31 December 2014 and 31 December 2013, 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 2014 and 31 December 2013, 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 2014					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	1,055,625	-	-	-	11,128	1,066,753
Trading securities	5,155	25,784	1,964	18,380	-	51,283
Derivative financial instruments	4,352	16,289	-	-	-	20,641
Derivative assets held for risk management	60,815	30,787	-	-	-	91,602
Loans and advances to customers	13,034,393	13,428,180	5,205,120	73,802	-	31,741,495
Investment securities						
- Available-for-sale	-	-	-	-	20,538	20,538
- Held-to-maturity	106,737	187,164	3,053	-	-	296,954
Property and equipment and intangible assets	-	-	-	-	20,444	20,444
Other assets	-	-	-	-	273,682	273,682
<b>Total assets</b>	<b>14,267,077</b>	<b>13,688,204</b>	<b>5,210,137</b>	<b>92,182</b>	<b>325,792</b>	<b>33,583,392</b>
Funds borrowed	13,541,638	10,845,514	-	-	-	24,387,152
Debt securities in issue	1,172,409	2,835,089	46,693	-	-	4,054,191
Interbank money market deposits	220,064	-	-	-	-	220,064
Derivative financial instruments	2,180	80	-	-	-	2,260
Derivative liabilities held for risk management	16	18,922	-	-	-	18,938
Other liabilities	6,087	41,792	113,809	-	409,080	570,768
Reserve for employment termination benefits	-	-	-	-	14,301	14,301
<b>Total liabilities</b>	<b>14,942,394</b>	<b>13,741,397</b>	<b>160,502</b>	<b>-</b>	<b>423,381</b>	<b>29,267,674</b>
<b>Net repricing gap</b>	<b>(675,317)</b>	<b>(53,193)</b>	<b>5,049,635</b>	<b>92,182</b>	<b>(97,589)</b>	<b>4,315,718</b>

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

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

	31 December 2013					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	1,008,830	-	-	-	10,555	1,019,385
Trading securities	9,123	49,653	39,916	14,578	-	113,270
Derivative financial instruments	-	-	-	58,776	-	58,776
Derivative assets held for risk management	-	13,803	-	-	-	13,803
Loans and advances to customers	7,345,620	14,906,087	543,586	-	-	22,795,293
Investment securities						
- Available-for-sale	-	-	-	-	17,351	17,351
- Held-to-maturity	104,771	50,534	83,066	-	-	238,371
Property and equipment and intangible assets	-	-	-	-	19,409	19,409
Other assets	-	-	-	-	284,861	284,861
<b>Total assets</b>	<b>8,468,344</b>	<b>15,020,077</b>	<b>666,568</b>	<b>73,354</b>	<b>332,176</b>	<b>24,560,519</b>
Funds borrowed	5,752,923	11,374,802	158,975	-	-	17,286,700
Debt securities in issue	-	2,562,373	-	42,455	-	2,604,828
Interbank money market deposits	163,945	-	-	-	-	163,945
Derivative financial instruments	9,779	36,432	-	-	-	46,211
Derivative liabilities held for risk management	-	-	-	39,272	-	39,272
Other liabilities	8,599	249,880	-	-	246,223	504,702
Reserve for employment termination benefits	-	-	-	-	12,193	12,193
<b>Total liabilities</b>	<b>5,935,246</b>	<b>14,223,487</b>	<b>158,975</b>	<b>81,727</b>	<b>258,416</b>	<b>20,657,851</b>
<b>Net repricing gap</b>	<b>2,533,098</b>	<b>796,590</b>	<b>507,593</b>	<b>(8,373)</b>	<b>73,760</b>	<b>3,902,668</b>

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
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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 2014 and 31 December 2013:

	31 December 2014			
	USD (%)	EUR (%)	JPY (%)	TL (%)
<b>Assets</b>				
Cash and due from banks				
-Time deposits in foreign banks	0.43	0.36	-	-
-Time deposits in domestic banks	-	-	-	9.95
-Interbank money market placements	-	-	-	10.15
Trading securities	4.57	-	-	5.89
Loans and advances to customers	1.69	1.85	2.11	7.58
Investment securities				
-Held-to-maturity	6.81	-	-	10.09
<b>Liabilities</b>				
Funds borrowed	0.65	0.91	-	-
Debt securities in issue	3.78	-	-	-
Interbank money market deposits	-	-	-	-
<b>31 December 2013</b>				
	USD (%)	EUR (%)	JPY (%)	TL (%)
<b>Assets</b>				
Cash and due from banks				
-Time deposits in foreign banks	0.48	0.32	-	-
-Time deposits in domestic banks	-	-	-	6.20
-Interbank money market placements	-	-	-	6.26
Trading securities	4.54	-	-	6.86
Loans and advances to customers	1.85	2.14	2.45	6.39
Investment securities				
-Held-to-maturity	6.79	-	-	7.40
<b>Liabilities</b>				
Funds borrowed	0.72	1.02	-	-
Debt securities in issue	4.14	-	-	-
Interbank money market deposits	-	-	-	-

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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 2014 and 31 December 2013. The sensitivity of the shareholders’ equity at 31 December 2014 and 31 December 2013 is calculated through revaluating the financial assets available-for-sale taking into account the possible changes in interest rates, where applicable. The tax effects are not considered in the analysis. The other variables, especially exchanges rates, are assumed to be fixed in this analysis.

<b>31 December 2014</b>	<b>Currency</b>	<b>Applied shock (+/- x basis points)</b>	<b>Gains / losses</b>	<b>Gains/shareholders’ equity – losses/ shareholders’ equity (%)</b>
1	TL	500 (400)	(111,707) 98,482	(2.50) 2.21
2	EURO	200 (200)	(105,806) 96,389	(2.37) 2.16
3	USD	200 (200)	54,695 (61,287)	1.23 (1.37)
<b>Total (For negative shocks)</b>			<b>133,584</b>	<b>2.99</b>
<b>Total (For positive shocks)</b>			<b>(162,818)</b>	<b>(3.65)</b>

<b>31 December 2013</b>	<b>Currency</b>	<b>Applied shock (+/- x basis points)</b>	<b>Gains / losses</b>	<b>Gains/shareholders’ equity – losses/ shareholders’ equity (%)</b>
1	TL	500 (400)	(165,798) 147,675	(4.11) 3.66
2	EURO	200 (200)	(46,833) 48,355	(1.16) 1.20
3	USD	200 (200)	2,891 (3,077)	0.07 (0.08)
<b>Total (For negative shocks)</b>			<b>192,953</b>	<b>4.78</b>
<b>Total (For positive shocks)</b>			<b>(209,740)</b>	<b>(5.20)</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)

As of 31 December 2014 and 31 December 2013, the table below analyses the assets and liabilities of the Bank into relevant maturity Bankings based on the remaining period at balance sheet date to the contractual maturity dates.

	31 December 2014					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	1,055,625	-	-	-	11,128	1,066,753
Trading securities	5,155	25,785	1,963	18,380	-	51,283
Derivative financial instruments	4,339	502	15,800	-	-	20,641
Derivative assets held for risk management	60,815	20,545	10,242	-	-	91,602
Loans and advances to customers	12,886,024	13,576,549	5,205,120	73,802	-	31,741,495
Investment securities						
- Available-for-sale	-	-	-	-	20,538	20,538
- Held-to-maturity	47,572	157,766	91,616	-	-	296,954
Property and equipment and intangible assets	-	-	-	-	20,444	20,444
Other assets	-	-	-	-	273,682	273,682
<b>Total assets</b>	<b>14,059,530</b>	<b>13,781,147</b>	<b>5,324,741</b>	<b>92,182</b>	<b>325,792</b>	<b>33,583,392</b>
Funds borrowed	11,049,793	11,629,721	698,940	1,008,698	-	24,387,152
Debt securities in issue	-	-	2,881,782	1,172,409	-	4,054,191
Interbank market deposits	220,064	-	-	-	-	220,064
Derivative financial instruments	1,390	870	-	-	-	2,260
Derivative liabilities held for risk management	16	1,528	17,394	-	-	18,938
Other liabilities	4,793	54,705	113,809	-	397,461	570,768
Reserve for employment termination benefits	-	-	-	-	14,301	14,301
<b>Total liabilities</b>	<b>11,276,056</b>	<b>11,686,824</b>	<b>3,711,925</b>	<b>2,181,107</b>	<b>411,762</b>	<b>29,267,674</b>
<b>Net liquidity gap</b>	<b>2,783,474</b>	<b>2,094,323</b>	<b>1,612,816</b>	<b>(2,088,925)</b>	<b>(85,970)</b>	<b>4,315,718</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

	31 December 2013					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	1,008,830	-	-	-	10,555	1,019,385
Trading securities	9,098	38,730	39,942	25,500	-	113,270
Derivative financial instruments	-	-	-	58,776	-	58,776
Derivative assets held for risk management	-	-	13,803	-	-	13,803
Loans and advances to customers	4,840,634	14,545,227	3,326,317	83,115	-	22,795,293
Investment securities						
- Available-for-sale	-	-	-	-	17,351	17,351
- Held-to-maturity	22,587	44,374	171,410	-	-	238,371
Property and equipment and intangible assets	-	-	-	-	19,409	19,409
Other assets	-	-	-	-	284,861	284,861
<b>Total assets</b>	<b>5,881,149</b>	<b>14,628,331</b>	<b>3,551,472</b>	<b>167,391</b>	<b>332,176</b>	<b>24,560,519</b>
Funds borrowed	3,464,199	12,451,596	538,226	832,679	-	17,286,700
Debt securities in issue	-	-	1,055,786	1,549,042	-	2,604,828
Interbank market deposits	163,945	-	-	-	-	163,945
Derivative financial instruments	1,409	44,802	-	-	-	46,211
Derivative liabilities held for risk management	-	-	-	39,272	-	39,272
Other liabilities	4,671	579	125,309	42,437	331,706	504,702
Reserve for employment termination benefits	-	-	-	-	12,193	12,193
<b>Total liabilities</b>	<b>3,634,224</b>	<b>12,496,977</b>	<b>1,719,321</b>	<b>2,463,430</b>	<b>343,899</b>	<b>20,657,851</b>
<b>Net liquidity gap</b>	<b>2,246,925</b>	<b>2,131,354</b>	<b>1,832,151</b>	<b>(2,296,039)</b>	<b>(11,723)</b>	<b>3,902,668</b>

The undiscounted cash flows of the financial liabilities of the Bank into relevant maturity Banking based on the remaining period at 31 December 2014 and 31 December 2013 to the contractual maturity dates are presented in the tables below:

	31 December 2014						Total
	Carrying amount	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	
Funds borrowed	24,387,152	11,034,957	11,621,748	806,608	1,046,794	-	24,510,107
Debt securities in issue	4,054,191	29,061	194,013	3,559,713	1,278,695	-	5,061,482
Interbank money market deposits	220,064	220,121	-	-	-	-	220,121
Other financial liabilities <sup>(1)</sup>	541,052	6,183	55,575	5,795	-	473,499	541,052
<b>Total financial liabilities</b>	<b>29,202,459</b>	<b>11,290,322</b>	<b>11,871,336</b>	<b>4,372,116</b>	<b>2,325,489</b>	<b>473,499</b>	<b>30,332,762</b>

<sup>(1)</sup> Tax liabilities amount to TL 4,682, funds amount to TL 16 and unearned income accruals and suspend account amounts to TL 65,215 are not included in other financial liabilities.



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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

	31 December 2013						Total
	Carrying amount	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	
Funds borrowed	17,286,700	3,455,770	12,473,067	474,107	1,027,810	-	17,430,754
Debt securities in issue	2,604,828	-	150,159	1,545,057	1,633,935	-	3,329,151
Interbank money market deposits	163,945	163,986	-	-	-	-	163,986
Other financial liabilities <sup>(1)</sup>	434,107	128	8,647	-	-	425,332	434,107
<b>Total financial liabilities</b>	<b>20,489,580</b>	<b>3,619,884</b>	<b>12,631,873</b>	<b>2,019,164</b>	<b>2,661,745</b>	<b>425,332</b>	<b>21,357,998</b>

<sup>(1)</sup> Tax liabilities amount to TL 3,908, funds amount to TL 28 and unearned income accruals and suspend account amounts to TL 156,183 are not included in other financial liabilities.

The undiscounted cash inflows and outflows of derivative transactions of the Bank at 31 December 2014 and 31 December 2013 are presented in the tables below:

	31 December 2014					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years		
<b>Derivatives held for trading:</b>						
Foreign exchange derivatives:						
- Outflow	489,153	31,467	369,529	-	-	890,149
- Inflow	492,904	35,055	392,399	-	-	920,358
Interest rate derivatives:						
- Outflow	47,277	194,014	-	-	-	241,291
- Inflow	45,885	193,685	-	-	-	239,570
<b>Derivatives held for risk management</b>						
Foreign exchange derivatives:						
- Outflow	1,356,517	848,291	-	-	-	2,204,808
- Inflow	1,408,633	834,139	-	-	-	2,242,772
Interest rate derivatives:						
- Outflow	-	122,650	2,966,450	-	-	3,089,100
- Inflow	-	145,988	2,934,545	-	-	3,080,533
<b>Total outflow</b>	<b>1,892,947</b>	<b>1,196,422</b>	<b>3,335,979</b>	<b>-</b>	<b>-</b>	<b>6,425,348</b>
<b>Total inflow</b>	<b>1,947,422</b>	<b>1,208,867</b>	<b>3,326,944</b>	<b>-</b>	<b>-</b>	<b>6,483,233</b>

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**4 FINANCIAL RISK MANAGEMENT** (continued)

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

	31 December 2013				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>Derivatives held for trading:</b>					
Foreign exchange derivatives:					
- Outflow	482,856	1,124,736	-	320,959	1,928,551
- Inflow	489,399	1,123,706	-	296,296	1,909,401
Interest rate derivatives:					
- Outflow	1,458	2,482	73,940	-	77,880
- Inflow	867	1,395	73,123	-	75,385
<b>Derivatives held for risk management</b>					
Foreign exchange derivatives:					
- Outflow	-	-	-	-	-
- Inflow	-	-	-	-	-
Interest rate derivatives:					
- Outflow	-	126,866	1,585,866	1,680,011	3,392,743
- Inflow	-	150,135	1,544,973	1,633,925	3,329,033
<b>Total outflow</b>	<b>484,314</b>	<b>1,254,084</b>	<b>1,659,806</b>	<b>2,000,970</b>	<b>5,399,174</b>
<b>Total inflow</b>	<b>490,266</b>	<b>1,275,236</b>	<b>1,618,096</b>	<b>1,930,221</b>	<b>5,313,819</b>

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**4 FINANCIAL RISK MANAGEMENT** (continued)

**(g) Fair value hedges**

Starting from 1 January 2013, the Bank hedged the possible fair value effects of changes in labour interest rates on 5.375% and 5.875% fixed interest rate debt securities amounting USD 500 million and USD 610 million funding by using interest rate swaps.

USD debt securities issued in total amount to USD 750 million with 5.875% fixed interest rate and maturity 7 years by the Bank. Remaining risk amount to USD 140 million hedged with cross currency swaps in year 2012 but this remaining portion is not subject to fair value hedge accounting. Starting from September 2014, the Bank issued 5% fixed interest rate debt securities with seven years maturity amounting US Dollars 500 million (TL 1,162,450) and they are not subject to fair value hedge accounting.

Starting from 31 May 2014, the Bank hedged the possible fair value difference risk of CBRT Rediscount loans amount to TL 2,461,541 related to interest rate changes with forward transactions. Changes in the fair value of forward transactions related to interest rate risks hedges fair value risk of the TL denominated CBRT Rediscount Loans related to changes in interest rates.

The impact of application fair value hedge accounting is summarised below:

31 December 2014					
Type of hedging instrument	Hedge item (asset and liability)	Nature of hedge risks	Fair value difference/adjustment of the hedge item	Net fair value of the	
				Asset	Liability
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	(13,649)	10,242	17,394
Forward transactions	Originated CBT-Rediscount TL loans	Fixed interest rate risk	(1,172)	81,360	1,544
31 December 2013					
Type of hedging instrument	Hedge item (asset and liability)	Nature of hedge risks	Fair value difference/adjustment of the hedge item	Net fair value of the	
				Asset	Liability
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	(55,582)	13,803	39,272

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%.

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 balance sheet, 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 (amortised 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 and loss accounts.

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

**(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 balance sheet dates.

Loans and advances to customers are net of provisions for impairment.

The estimated fair value of loans and advances to customers 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 balance sheet 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 instruments**

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

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

	31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>				
Cash and due from banks	1,066,753	1,066,753	1,019,385	1,019,385
Investment securities				
- Held to maturity	296,954	305,280	238,371	243,046
- Available for sale	4,370 <sup>(1)</sup>	4,370	4,370 <sup>(1)</sup>	4,370
Loans and advances to customers <sup>(2)</sup>	31,741,495	32,504,569	22,795,293	24,210,725
<b>Financial liabilities:</b>				
Funds borrowed	24,387,152	24,870,137	17,286,700	17,313,640
Debt securities in issue	4,054,191	4,054,191	2,604,828	2,604,828
Interbank money market deposits	220,064	220,064	163,945	163,945

<sup>(1)</sup> Garanti Faktoring Hizmetleri AŞ shares amounting to TL 16,168 are not included (31 December 2013: TL 12,981).

<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.

Fair values of held to maturity investments are determined as Level 1 and fair values of loans and receivables are determined as Level 2.

Fair values of funds borrowed are determined as Level 2.

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**4 FINANCIAL RISK MANAGEMENT** (continued)

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

**(iii) Derivative financial instruments** (continued)

The following table summarises the fair values of those financial assets and liabilities presented on the Bank's balance sheet based on the hierarchy of valuation technique as of 31 December 2014 and 31 December 2013.

<b>31 December 2014</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>
<b>Financial assets at fair value through profit and loss</b>				
Financial assets held for trading				
- Debt securities	51,283	-	-	51,283
- Derivatives	-	20,641	-	20,641
<b>Derivative asset held for risk management</b>	-	91,602	-	91,602
<b>Available-for-sale financial assets</b>				
- Investment securities - equity <sup>(4)</sup>	16,168	-	-	16,168
<b>Total assets</b>	<b>67,451</b>	<b>112,243</b>	<b>-</b>	<b>179,694</b>
<b>Financial liabilities at fair value through profit and loss</b>				
Financial liabilities held for trading				
- Derivatives	-	2,260	-	2,260
<b>Derivative asset held for risk management</b>	-	18,938	-	18,938
<b>Total liabilities</b>	<b>-</b>	<b>21,198</b>	<b>-</b>	<b>21,198</b>

(1) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed equity securities 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 securities which are accounted with their cost amount to TL 4,370 are excluded.

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**4 FINANCIAL RISK MANAGEMENT** (continued)

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

<b>31 December 2013</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>
<b>Financial assets at fair value through profit and loss</b>				
Financial assets held for trading				
- Debt securities	113,270	-	-	113,270
- Derivatives	-	58,776	-	58,776
<b>Derivative asset held for risk management</b>	-	13,803	-	13,803
<b>Available-for-sale financial assets</b>				
- Investment securities - equity <sup>(4)</sup>	12,981	-	-	12,981
<b>Total assets</b>	<b>126,251</b>	<b>72,579</b>	<b>-</b>	<b>198,830</b>
<b>Financial liabilities at fair value through profit and loss</b>				
Financial liabilities held for trading				
- Derivatives	-	46,211	-	46,211
<b>Derivative asset held for risk management</b>	-	39,272	-	39,272
<b>Total liabilities</b>	<b>-</b>	<b>85,483</b>	<b>-</b>	<b>85,483</b>

(1) Fair values are calculated with quoted prices (unadjusted) in active markets for listed equity securities and debt instruments. This level includes listed equity securities 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 securities which are accounted with their cost amount to TL 4,370 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 2014 and 31 December 2013 were as follows:

	<b>31 December 2014<sup>(1)</sup></b>	<b>31 December 2013</b>
Tier I capital	4,332,938	3,902,343
Tier II capital	130,214	133,913
<b>Total regulatory capital</b>	<b>4,463,152</b>	<b>4,036,256</b>
Amount subject to credit risk	17,644,838	13,241,875
Amount subject to market risk	222,613	1,569,850
Amount subject to operational risk	641,225	602,425
<b>Total regulatory capital expressed as a percentage of total value at credit, market and operational risks (%)</b>	<b>24.11</b>	<b>26.19</b>
<b>Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks (%)</b>	<b>23.41</b>	<b>-</b>

<sup>(1)</sup> Calculation of regulatory capital is changed effective from 1 January 2014 as per the Regulation on Equity of Banks published in the official Gazette no. 28756 dated 5 September 2013.

**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) Impairment losses on loans and advances to customers**

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.

**(b) Fair value of derivatives**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques such as discounted cash flow models. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.



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**6 CASH AND DUE FROM BANKS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Cash funds:</b>		
Cash on hand	41	20
	<b>41</b>	<b>20</b>
<b>Current accounts and demand deposits:</b>		
Central Bank of Republic of Turkey (CBRT)	248	260
Foreign banks	15,231	101,856
Domestic banks	-	-
	<b>15,479</b>	<b>102,116</b>
<b>Time deposits:</b>		
Central Bank of Republic of Turkey (CBRT)	-	-
Foreign banks	-	-
Domestic banks	976,128	917,249
	<b>976,128</b>	<b>917,249</b>
<b>Interbank money market placements</b>	<b>75,105</b>	<b>-</b>
<b>Total cash and due from banks</b>	<b>1,066,753</b>	<b>1,019,385</b>

Cash and cash equivalents included in the statements of cash flows for the period ended 31 December 2014 and 31 December 2013 is as follows:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Cash and due from banks	1,066,753	1,019,385
Less: interest accruals	(822)	(60)
Less: time deposits with maturities exceeding 3 months	-	-
<b>Cash and cash equivalents</b>	<b>1,065,931</b>	<b>1,019,325</b>

Cash and cash equivalents are mainly composed of bank deposits as of 31 December 2014 and 31 December 2013.

**7 TRADING SECURITIES**

	<b>31 December 2014</b>	<b>31 December 2013</b>
Government bonds	42,599	49,189
Eurobonds	8,684	64,081
<b>Total</b>	<b>51,283</b>	<b>113,270</b>

As of 31 December 2014, the carrying value of securities subject to repurchase transactions is TL 20,619 (31 December 2013: TL 40,152).

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**8 DERIVATIVE FINANCIAL INSTRUMENTS**

The Bank utilises the following derivative instruments:

“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 balance sheet 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 instruments held as of 31 December 2014 and 31 December 2013 are set out in the following table:

	31 December 2014		31 December 2013	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
Interest rate and currency swaps purchases and sales	14	(1733)	26	(2,519)
Forward purchases and sales	403	(75)	47,827	-
Foreign currency swaps purchases and sales	4,289	(319)	-	(1,257)
Cross currency and basis swaps purchases and sales	15,799	-	10,923	(42,435)
Option purchases and sales	136	(133)	-	-
<b>Total derivative assets/(liabilities)</b>	<b>20,641</b>	<b>(2,260)</b>	<b>58,776</b>	<b>(46,211)</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, and are therefore treated as derivatives held for trading. Hedge accounting is explained in detail in Note 4g.

The notional amounts of derivative transactions are explained in detail in Note 24.

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**9 LOANS AND ADVANCES TO CUSTOMERS**

The Bank follows loans and advances to customers 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 2014</b>	<b>31 December 2013</b>
<b>Short-term</b>		
Financial institutions	3,875,800	3,484,511
Export guaranteed loans	952,470	626,372
Fund sourced loans	-	-
Specialised loans	195,078	127,995
Discount loans	19,290,780	13,329,406
Other guaranteed loans	153	7,353
	<b>24,314,281</b>	<b>17,575,637</b>
<b>Medium and long-term</b>		
Financial institutions	490,631	1,449,509
Export guaranteed loans	5,270,782	3,133,260
Foreign country loans (political risks)	394,072	202,620
Specialised loans	193,417	97,734
Export guaranteed investment loans	886,946	313,745
Fund sourced loans	-	871
Other	299,582	111,212
	<b>7,535,430</b>	<b>5,308,951</b>
<b>Performing loans</b>	<b>31,849,711</b>	<b>22,884,588</b>
Loans under close monitoring	20,766	39,687
Impaired loans and advances	127,478	117,478
<b>Gross loans and advances to customers</b>	<b>31,997,955</b>	<b>23,041,753</b>
Allowance for loan losses	(256,460)	(246,460)
<b>Net loans and advances to customers</b>	<b>31,741,495</b>	<b>22,795,293</b>

The Bank provides impairment provision for non-performing loans amounting to TL 127,478 (31 December 2013: TL 117,478) comprising 0.40% (31 December 2013: 0.51%) of the total loans outstanding at 31 December 2014. The Bank also provided an additional impairment provision amounting to TL 128,982 (31 December 2013: TL 128,982) for other components of the loan portfolio to cover the incurred of loss present in the lending relationship but not yet identified with a specific loan.

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**9 LOANS AND ADVANCES TO CUSTOMERS (continued)**

Movements in the provision for impairment losses for the period ended 31 December 2014 and 31 December 2013 are as follows:

	2014	2013
<b>Balance at the beginning of the period</b>	<b>246,460</b>	<b>241,365</b>
Recoveries and reversals	(1,414)	(27)
Provision for the period	11,414	5,122
<b>Balance at the end of the period</b>	<b>256,460</b>	<b>246,460</b>

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

	31 December 2014	31 December 2013
Public sector	1,513,444	1,443,588
Private sector	30,484,511	21,598,165
	<b>31,997,955</b>	<b>23,041,753</b>

**10 INVESTMENT SECURITIES**

**(a) Available-for-sale securities:**

	31 December 2014	31 December 2013
Equity securities		
- Listed	16,168	12,981
- Unlisted	4,370	4,370
<b>Total available-for-sale securities</b>	<b>20,538</b>	<b>17,351</b>

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

Unrealised gain and losses arising from changes in the fair value of securities classified as “available-for-sale” are recognised in other comprehensive income unless there is objective evidence that the asset is impaired in which case they are charged to the income statement.

The breakdown of available-for-sale equity securities at 31 December 2014 and 31 December 2013 are as follows:

	Share %		Carrying amount		Business
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Equity securities					
Garanti Faktoring Hizmetleri AŞ	9.78	9.78	16,168	12,981	Factoring
Kredi Garanti Fonu AŞ	1.75	1.75	4,210	4,210	Financial services
Borsa İstanbul	-	-	160	160	Financial services
			<b>20,538</b>	<b>17,351</b>	

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**10 INVESTMENT SECURITIES** (continued)

**(b) Held-to-maturity securities:**

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Debt securities</b>		
- Government bonds	249,381	238,371
- Eurobonds	47,573	-
<b>Total held-to-maturity securities</b>	<b>296,954</b>	<b>238,371</b>

As of 31 December 2014, government bonds and treasury bills amounting to TL 65,142 (31 December 2013: TL 65,142) have been pledged as collateral with the CBRT and Borsa İstanbul AŞ-Settlement and Custody Bank.

The movement of held-to-maturity securities for the year ended 31 December 2014 and 31 December 2013 are as follows:

	<b>2014</b>	<b>2013</b>
<b>Balance at 1 January</b>	<b>238,371</b>	<b>300,349</b>
Purchases	5,073	100,026
Redemptions	(41,648)	(161,732)
Foreign exchange difference	91,324	5,542
Interest income accruals	3,834	(5,814)
<b>Total held-to-maturity securities at the end of the year</b>	<b>296,954</b>	<b>238,371</b>

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
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**11 PROPERTY AND EQUIPMENT**

	<b>Buildings</b>	<b>Vehicles</b>	<b>Other tangible assets</b>	<b>Total</b>
<b>Cost</b>				
Opening balance, 1 January 2013	20,150	2,301	12,325	34,776
Additions	-	-	6,394	6,394
Disposals	(4,565)	-	(5,660)	(10,225)
<b>Closing balance, 31 December 2013</b>	<b>15,585</b>	<b>2,301</b>	<b>13,059</b>	<b>30,945</b>
<b>Accumulated depreciation:</b>				
Opening balance, 1 January 2013	4,733	540	10,128	15,401
Additions	177	419	3,267	3,863
Disposals	(2,034)	-	(5,156)	(7,190)
<b>Closing balance, 31 December 2013</b>	<b>2,876</b>	<b>959</b>	<b>8,239</b>	<b>12,074</b>
<b>Cost</b>				
Opening balance, 1 January 2014	15,585	2,301	13,059	30,945
Additions	4,564	670	718	5,952
Disposals	-	-	(40)	(40)
<b>Closing balance, 31 December 2014</b>	<b>20,149</b>	<b>2,971</b>	<b>13,737</b>	<b>36,857</b>
<b>Accumulated depreciation:</b>				
Opening balance, 1 January 2014	2,876	959	8,239	12,074
Additions	5,428	358	426	6,212
Disposals	-	-	-	-
<b>Closing balance, 31 December 2014</b>	<b>8,304</b>	<b>1,317</b>	<b>8,665</b>	<b>18,286</b>
<b>As at 31 December 2013, net book value</b>	<b>12,709</b>	<b>1,342</b>	<b>4,820</b>	<b>18,871</b>
<b>As at 31 December 2014, net book value</b>	<b>11,845</b>	<b>1,654</b>	<b>5,072</b>	<b>18,571</b>

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**12 INTANGIBLE ASSETS**

	<b>Intangible assets</b>
<b>Cost</b>	
Opening balance, 1 January 2013	1,881
Additions	347
Disposals	-
<b>Closing balance, 31 December 2013</b>	<b>2,228</b>
<b>Accumulated amortisation:</b>	
Opening balance, 1 January 2013	1,421
Additions	269
Disposals	-
<b>Closing balance, 31 December 2013</b>	<b>1,690</b>
<b>Cost</b>	
Opening balance, 1 January 2014	2,228
Additions	1,780
Disposals	-
<b>Closing balance, 31 December 2014</b>	<b>4,008</b>
<b>Accumulated amortisation:</b>	
Opening balance, 1 January 2014	1,690
Additions	445
Disposals	-
<b>Closing balance, 31 December 2014</b>	<b>2,135</b>
<b>As at 31 December 2013, net book value</b>	<b>538</b>
<b>As at 31 December 2014, net book value</b>	<b>1,873</b>

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**13 OTHER ASSETS**

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Financial assets</b>		
Guarantees given	195,942	179,337
Receivables from Reassurance Companies	20,424	2,170
Receivables from Development and Support Fund	19,211	26,983
Receivables from banks	11,319	10,304
Notes receivable	9,765	8,078
Insurance premiums receivables	-	42,610
Other	2,803	4,744
<b>Non-financial assets</b>		
Upfront fees paid	25,537	20,939
	<b>285,001</b>	<b>295,165</b>
Provision for impairment on other assets	(11,319)	(10,304)
	<b>273,682</b>	<b>284,861</b>

As at 31 December 2014, receivable from the Development and Support Fund is due to the incomplete payment of General Headquarters of Gendarme regarding the military equipment purchases. Rest of the receivables from the Development and Support Fund, arises from the exchange losses due to the late transfer of the funds to the Bank from the Ministry of Defence. As of 31 December 2014, there is no improvement in the collection of these receivables and 100% provision is recognised as provision for impairment on other assets.

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

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Interbank money market deposits – TL</b>	<b>220,064</b>	<b>163,945</b>
Domestic banks	19,734,388	13,464,040
Foreign banks	4,652,764	3,822,660
<b>Funds borrowed</b>	<b>24,387,152</b>	<b>17,286,700</b>
<b>Funds borrowed interbank money market deposits total</b>	<b>24,607,216</b>	<b>17,450,645</b>

Interest rate for interbank money market deposits is 10.06% (31 December 2013: 4.50%) and the maturity dates of such deposits is between 29 December 2014 and 1 January 2015 (31 December 2013: maturity date is 1 January 2014 and 2 January 2014).



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

The breakdown of funds borrowed as of 31 December 2014 and 31 December 2013 is as follows:

<b>31 December 2014</b>	<b>Interest Rate</b>	<b>Original Currency Amount (thousands)</b>	<b>Original Currency</b>	<b>TL (thousands)</b>	<b>Maturity Date (year)</b>
<b>Due to Central Bank</b>				<b>19,241,047</b>	
CBRT Loan		6,165,052	USD	14,333,129	(1)
CBRT Loan		1,735,225	EUR	4,902,878	(1)
CBRT Loan		1,392	GBP	5,040	(1)
<b>Due to IFIs</b>				<b>1,662,581</b>	
World Bank (EFIL) Loans	LIBOR+%0.051	195,289	USD	454,027	01.03.2038
World Bank (EFIL) Loans	EURIBOR+%0.071	52,233	EUR	147,584	01.03.2038
European Investment Bank	LIBOR+%1.588-%1.859	111,321	USD	258,810	16.01.2024- 29.07.2024
European Investment Bank	EURIBOR+%0.281-%1.175	283,900	EUR	802,160	17.12.2021- 29.07.2024
<b>Due to Commercial Banks</b>				<b>3,347,715</b>	
National Bank Of Kuwait	LIBOR+%3.35	15,046	USD	34,981	15.05.2015
J.P. Morgan Chase Bank	LIBOR+%1.64	67,526	USD	156,992	18.09.2015
Doha Bank	LIBOR+%1.41-%1.66	60,045	USD	139,599	17.03.2015- 19.11.2015
Mizuho Corporate Bank	EURIBOR+%1.20	100,312	EUR	283,433	03.09.2015
Bank of Tokyo Mitsubishi	EURIBOR+%1.20	100,154	EUR	282,985	30.10.2015
ITFC	LIBOR+%2.10	200,013	USD	465,011	29.06.2015
Citibank Europe Plc	LIBOR+%1.43-%1.79	80,000	USD	185,992	22.06.2015- 14.12.2015
Syndicated loan	LIBOR+%1.05	26,916	USD	62,577	27.02.2015- 15.07.2015
Syndicated loan	EURIBOR+%1.19-1.20	614,456	EUR	1,736,145	27.02.2015- 15.07.2015
<b>Others</b>				<b>135,809</b>	
Subordinated loan	LIBOR+%0.5	58,415	USD	135,809	15.04.2018
<b>Total funds borrowed</b>		<b>10,489,549<sup>(2)</sup></b>		<b>24,387,152</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 2013	Interest rate	Original currency amount (thousands)	Original currency	TL (thousands)	Maturity date (year)
<b>Due to Central Bank</b>				<b>13,158,583</b>	
CBRT Loan	LIBOR/EURIBOR for 120	4,620,308	USD	9,778,420	(1)
CBRT Loan	days LIBOR/EURIBOR +	1,157,267	EUR	3,372,623	(1)
CBRT Loan	%0.20 for 240 days	2,156	GBP	7,540	(1)
<b>Due to IFIs</b>				<b>1,224,145</b>	
World Bank (EFIL) Loans	LIBOR+%0.051	203,637	USD	430,977	01.03.2038
World Bank (EFIL) Loans	EURIBOR+%0.071	54,462	EUR	158,719	01.03.2038
European Investment Bank	LIBOR+%1.588-%1.859	111,349	USD	235,659	16.01.2024- 29.07.2024
European Investment Bank	EURIBOR+%0.281-%1.175	136,839	EUR	398,790	17.12.2021- 29.07.2024
<b>Due to Commercial Banks</b>				<b>2,744,999</b>	
National Bank Of Kuwait	LIBOR+%3.35	15,048	USD	31,848	15.05.2015
Mediobanca Banca Di Credito	LIBOR+%1.65	25,029	USD	52,971	25.11.2014
International Islamic Trade	LIBOR+%2.10	50,003	USD	105,826	30.06.2014
Standart Chartered Bank	LIBOR+%1.50	49,824	USD	105,448	21.08.2014
Doha Bank	LIBOR+%1.65-%1.70	60,200	USD	127,407	12.03.2014- 10.11.2014
Mizuho Corporate Bank	EURIBOR+%1.35	100,400	EUR	292,596	21.08.2014
ING Bank N.V.	EURIBOR+%1.65-%1.80	100,430	EUR	292,683	02.07.2014- 25.11.2014
Bank of Tokyo Mitsubishi	EURIBOR+%1.35	50,231	EUR	146,388	16.09.2014
Citibank Europe Plc	LIBOR+%1.38-%1.79	150,000	USD	317,460	04.04.2014- 03.11.2014
Syndicated loan	LIBOR+%1.65	26,809	USD	56,739	13.02.2014
Syndicated loan	EURIBOR+%1.33-1.63	417,127	EUR	1,215,633	13.02.2014- 04.07.2014
<b>Others</b>				<b>158,973</b>	
Subordinated loan	LIBOR+%0.5	75,115	USD	158,973	15.04.2018
<b>Total funds borrowed</b>		<b>8,167,974<sup>(2)</sup></b>		<b>17,286,700</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 was as follows during 2014:

	<b>FX Type</b>	<b>Repayment amount</b>	<b>Date</b>
Syndicated loan	EUR	220,000,000	13.02.2014
Syndicated loan	USD	26,668,000	13.02.2014
EFIL IV Loan	USD	4,148,000	03.03.2014
EFIL IV Euro Loan	EUR	1,110,000	03.03.2014
Doha Bank	USD	25,000,000	12.03.2014
Citibank	USD	23,000,000	04.04.2014
Subordinated Loans	USD	8,333,000	15.04.2014
Citibank	USD	17,000,000	21.04.2014
Citibank	USD	20,000,000	09.06.2014
European Investment Bank	EUR	1,471,000	17.06.2014
Doha Bank	USD	15,000,000	18.06.2014
Citibank	USD	20,000,000	20.06.2014
Citibank	USD	20,000,000	27.06.2014
Citibank	USD	20,000,000	30.06.2014
ITFC	USD	50,000,000	30.06.2014
ING Bank	EUR	50,000,000	02.07.2014
Syndicated loan	EUR	195,000,000	04.07.2014
Citibank	USD	15,000,000	21.07.2014
Standard Chartered	USD	49,500,000	21.08.2014
Mizuho Bank	EUR	100,000,000	21.08.2014
EFIL IV Euro Loan	EUR	1,110,000	01.09.2014
EFIL IV Loan	USD	4,148,000	02.09.2014
Bank of Tokyo Mitsubishi	EUR	50,000,000	16.09.2014
Subordinated Loans	USD	8,333,000	15.10.2014
Citibank	USD	15,000,000	03.11.2014
Doha Bank	USD	20,000,000	10.11.2014
Mediobanca	USD	25,000,000	25.11.2014
ING Bank	EUR	50,000,000	25.11.2014
European Investment Bank	EUR	1,471,000	17.12.2014
ITFC	USD	200,000,000	29.12.2014

**Debt securities in issue**

As of 31 December 2014, the total liability amount due for bonds issued by the Bank on October 2011 and April 2012, amounting to USD 1,000 million, October 2012 amounting to USD 250 million and September 2014 amounting to USD 500 million is TL 4,054,191 TL with TL 4,126,861 as principal and the TL 43,902 as interest.

**15 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, deferred tax asset or liability is not recognised in these financial statements.

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**16 OTHER LIABILITIES AND PROVISIONS**

The principal components of other liabilities are as follows:

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Financial liabilities</b>		
Guarantees received <sup>(1)</sup>	454,963	403,844
Positive price difference on bonds issued <sup>(3)</sup>	58,286	43,454
Turkish Treasury-current account-Iraq Credit	151	998
Funds	16	32
Other	20,306	22,716
<b>Non-financial liabilities</b>		
Vacation pay liability <sup>(2)</sup>	9,923	8,760
Insurance technical provisions	17,012	10,645
Other	10,111	14,253
	<b>570,768</b>	<b>504,702</b>

(1) Guarantees received refers to cash guarantees obtained in relation to Pre-shipment export credits, which has increased in line with the increase in the amount of pre-shipment export credits.

(2) TL 1,163 of vacation pay liability provision is provided during 2014.

(3) In addition to the bond issuance transaction amounting to USD 500,000,000 in April 2012, the bank issued bonds amounting to USD 250,000,000 in October 2012. As the price of the issued bonds corresponds to 109,875% as at the issuance date, a positive price difference has come up. The transaction has been divided into instalments until the maturity date according to the principle of periodicity in accounting and the sum corresponding to each month is accounted for by reducing expense rediscount.

***Turkish Treasury-current account-Iraq Credit***

As of 31 December 2014, the TL amount under Turkish Treasury Current Account followed under 145-Medium Long term Fund Sourced Loans includes the foreign exchange differences calculated for the Iraq Loan whose risk has been transferred to the Turkish Treasury. The total FC amount under Turkish Treasury Current Account belongs to Iraq Loan. In addition, Law No. 6111 on restructuring some receivables became valid in 25 February 2011. This restructuring enabled restructuring of Iraq loans sourced by Development and Supporting Fund (DSF). The first four instalment amounts, paid by the firms which paid in advance or applied for payment in instalments within the firms applied for restructuring with respect to the law came into force, are transferred to the accounts of Treasury as of 31 December 2012. In addition, TL 1,284 against USD 652 thousand was collected from the firms make payment in instalments and transferred to Treasury as of 31 December 2014. The loans of the firms not under reconstruction were cut within maturity and removed from balance sheet. The amounts removed from the balance sheet are TL 668 against USD 348 thousand as of 31 December 2014.

The movements for insurance technical provision are as follows:

	<b>2014</b>	<b>2013</b>
1 January	10,645	5,325
Paid claims	6,123	437
Increase	244	4,883
<b>Total</b>	<b>17,012</b>	<b>10,645</b>

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**17 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).

The Bank recognised all actuarial gains and losses in profit or loss in previous years. Since the effect of this change has an immaterial effect on the previous year’s financial statements, the Bank did not restate its financial statements as at and for the year ended 31 December 2012.

Actuarial gains/losses, calculated as TL 1,045 (31 December 2013: TL 404) in relation to the reserve for employee termination benefits, are shown under shareholders’ equity and as TL 1,881 (31 December 2013: TL 1,160) 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 2014 and 31 December 2013:

	<b>31 December 2014</b>	<b>31 December 2013</b>
Discount rate (%)	1.89	2.82
Rate to estimate the probability of retirement (%)	0.98	0.98
Movement in the reserve for employment termination benefits for the period ended 31 December 2014 and 31 December 2013 are as follows:		
	<b>2014</b>	<b>2013</b>
1 January	12,193	12,440
Current service cost	922	533
Interest expense	959	627
Actuarial losses	1,045	404
Payments during the period	(818)	(1,811)
<b>Total</b>	<b>14,301</b>	<b>12,193</b>

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**18 SHARE CAPITAL**

The historical paid in share capital of the Bank is TL 2,400,000 (31 December 2013: TL 2,200,000) and consists of 2.4 billion (31 December 2013: 2.2 billion) authorised shares with a nominal value of TL 1 each. With the resolution of the Bank's Board of Directors which is held on 24 February 2014 and with the decision made at the Bank's Ordinary General Meeting held on 14 March 2014 and in compliance with the permissions of Banking Regulation and Supervision Agency (BRSA) dated on 3 March 2014 and 2 April 2014, the Bank's paid-in-capital has been increased from TL 2,200,000 to TL 2,400,000 and the increase of TL 200,000 originates from internal sources. With the resolution made by the Bank's Board of Directors on 24 February 2014, the amount of TL 17,946 dividend payment has been made by the Bank (31 December 2013: TL 16,961).

	<b>31 December 2014</b>	<b>31 December 2013</b>
Share capital - historical cost	2,400,000	2,200,000
Adjustment to share capital	812,518	812,518
<b>Total paid in share capital</b>	<b>3,212,518</b>	<b>3,012,518</b>

The Bank is fully owned by 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. Other reserve is amounting to TL 22,743 (31 December 2013: TL 22,743).

The legal reserves amounting to TL 280,954 (31 December 2013: TL 268,093) 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 available-for-sale investment securities until the investment is derecognised or impaired.

As at 31 December 2014, such gains/ (losses) recognised under equity in fair value reserves amounted to TL 11,383 (31 December 2013: TL 8,221).

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**19 NET INTEREST INCOME**

	<b>2014</b>	<b>2013</b>
<b>Interest income on:</b>		
Interest on loans and advances to customers	886,588	546,059
Interest on deposits with banks	29,564	8,957
Interest on held to maturity investments	20,555	18,683
Interest on interbank money market placements	15,034	12,255
Interest on trading financial assets	8,609	16,037
Other interest income	2,497	1,097
<b>Total interest income</b>	<b>962,847</b>	<b>603,088</b>
<b>Interest expense on:</b>		
Interest on funds borrowed	(153,580)	(80,928)
Interest on debt securities in issue	(166,677)	(133,021)
Interest expense on repo transactions	-	-
Other interest expenses	(13,234)	(4,951)
<b>Total interest expense</b>	<b>(333,491)</b>	<b>(218,900)</b>
<b>Net interest income</b>	<b>629,356</b>	<b>384,188</b>

**20 FOREIGN EXCHANGE GAINS AND LOSSES**

	<b>2014</b>	<b>2013</b>
Foreign exchange gain	3,643,061	1,576,456
Foreign exchange losses	(3,844,895)	(1,796,922)
<b>Net foreign exchange gains/(losses)</b>	<b>(201,834)</b>	<b>(220,466)</b>

**21 GAINS AND LOSSES ON FINANCIAL INSTRUMENTS CLASSIFIED AS HELD FOR TRADING**

	<b>2014</b>	<b>2013</b>
Derivative trading income	222,337	310,088
Derivative trading expenses	(181,028)	(139,711)
Trading income	139	2,390
Trading expenses	(4,542)	(24,589)
<b>Total</b>	<b>36,906</b>	<b>148,178</b>

**22 OTHER OPERATING INCOME**

	<b>2014</b>	<b>2013</b>
Insurance premium income	71,096	51,481
Provision for securities	19,964	-
Commission from reinsurance companies	19,472	12,430
Asset held for sale	-	18,772
Other	7,398	4,157
<b>Total</b>	<b>117,930</b>	<b>86,840</b>

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**23 OPERATING EXPENSES**

	<b>2014</b>	<b>2013</b>
Staff costs	73,638	65,657
Premiums paid to reinsurance companies	45,373	39,006
KOSGEB fee <sup>(1)</sup>	8,714	4,926
Depreciation and amortisation charges	6,657	4,132
Research expenses	5,703	4,914
BRSA contribution expense	5,061	3,721
Rent expenses	3,765	3,909
Provision on possible loan losses	1,914	6,942
Taxes and duties expenses	1,253	2,412
Vehicle expenses	1,576	1,272
Employment termination benefits and unused vacation	1,064	-
Other	18,540	9,624
<b>Total</b>	<b>173,258</b>	<b>146,515</b>

<sup>(1)</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.

**24 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**

At 31 December 2014, there are 137 legal proceedings outstanding against the Bank. As of 31 December 2014, 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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**24 COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

**Commitments under derivative instruments:**

The breakdown of swap transactions at 31 December 2014 and 31 December 2013 is as follows:

	Currency	31 December 2014		31 December 2013	
		Foreign currency amount	TL	Foreign currency amount	TL
<b>Transaction type</b>					
Interest rate swap purchases	USD	1,211,499,849	2,816,616	1,144,000,189	2,421,162
Foreign currency swap purchases	USD	209,086,842	486,106	120,000,000	253,971
Foreign currency forward purchases	USD	968,732,849	2,252,207	638,380,000	1,351,067
	TL	7,272,000	7,272	-	-
	EUR	270,041	763	-	-
Cross currency swaps purchases	USD	140,000,000	325,486	140,000,000	296,296
Option purchases	TL	2,700,000	2,700	8,070,000	8,070
	EUR	900,000	2,543	-	-
<b>Total purchases</b>			<b>5,893,693</b>		<b>4,330,566</b>
Interest rate swap sales	USD	1,211,499,849	2,816,616	1,144,000,189	2,421,162
Foreign currency swap sales	TL	260,227,000	260,227	253,768,000	253,768
	EUR	76,999,823	217,563	-	-
	JPY	230,737,578	4,486	-	-
Foreign currency forward sales	TL	2,207,203,000	2,207,203	1,345,078,000	1,345,078
	GBP	1,154,048	4,178	-	-
	EUR	270,041	763	-	-
	JPY	339,111,203	6,593	-	-
	USD	1,357,908	3,157	-	-
Cross currency swaps sales	TL	36,220,000	36,220	36,220,000	36,220
	EUR	97,704,000	276,063	97,704,000	284,739
Option sales	EUR	900,000	2,543	2,999,348	8,741
	TL	2,700,000	2,700	-	-
<b>Total sales</b>			<b>5,838,312</b>		<b>4,349,708</b>
<b>Total</b>			<b>11,732,005</b>		<b>8,680,274</b>

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

Maturity analysis of swap and forward transactions are as follows:

<b>31 December 2014</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	44,173	191,804	2,580,639	-	2,816,616
Foreign currency swap purchases	481,291	4,815	-	-	486,106
Forward foreign currency purchases	1,415,004	845,238	-	-	2,260,242
Cross currency swaps purchases	-	-	325,486	-	325,486
Option purchases	5,243	-	-	-	5,243
<b>Total purchases</b>	<b>1,945,711</b>	<b>1,041,857</b>	<b>2,906,125</b>	<b>-</b>	<b>5,893,693</b>
Interest rate swap sales	44,173	191,804	2,580,639	-	2,816,616
Foreign currency swap sales	477,791	4,486	-	-	482,277
Forward foreign currency sales	1,362,636	859,257	-	-	2,221,893
Cross currency swaps sales	-	-	312,283	-	312,283
Option sales	5,243	-	-	-	5,243
<b>Total sales</b>	<b>1,889,843</b>	<b>1,055,547</b>	<b>2,892,922</b>	<b>-</b>	<b>5,838,312</b>
<b>31 December 2013</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	-	-	1,089,946	1,331,216	2,421,162
Foreign currency swap purchases	253,971	-	-	-	253,971
Forward foreign currency purchases	-	1,351,067	-	-	1,351,067
Cross currency swaps purchases	-	-	-	296,296	296,296
Option purchases	8,070	-	-	-	8,070
<b>Total purchases</b>	<b>262,041</b>	<b>1,351,067</b>	<b>1,089,946</b>	<b>1,627,512</b>	<b>4,330,566</b>
Interest rate swap sales	-	-	1,089,946	1,331,216	2,421,162
Foreign currency swap sales	253,768	-	-	-	253,768
Forward foreign currency sales	-	1,345,078	-	-	1,345,078
Cross currency swaps sales	-	-	-	320,959	320,959
Swap sales	8,741	-	-	-	8,741
<b>Total sales</b>	<b>262,509</b>	<b>1,345,078</b>	<b>1,089,946</b>	<b>1,652,175</b>	<b>4,349,708</b>

The above tables summarise the Bank’s derivative transactions that will be settled on a net basis into relevant maturity Bankings 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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**24 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 2014 and 31 December 2013:

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Financial guarantees</b>		
Other guarantees		
-Foreign currency (Note 4)	1,613,307	1,219,632
<b>Total financial guarantees</b>	<b>1,613,307</b>	<b>1,219,632</b>

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

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**25 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 2014</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Segment revenue	73,762	1,042,380	36,906	1,153,048
Segment expenses	(148,464)	(163,707)	(411,998)	(724,169)
<b>Net profit</b>	<b>(74,702)</b>	<b>878,673</b>	<b>(375,092)</b>	<b>428,879</b>
Interest income	73,762	889,085	-	962,847
Interest expense	(179,878)	(153,613)	-	(333,491)
Depreciation and amortisation	-	-	-	-
Impairment charges on loans	(10,000)	-	-	(10,000)
<b>31 December 2014</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
<b>Total segment assets</b>	<b>1,547,771</b>	<b>31,730,979</b>	<b>304,642</b>	<b>33,583,392</b>
Segment liabilities	4,276,515	24,385,208	605,951	29,267,674
Equity	-	-	4,315,718	4,315,718
<b>Total liabilities and equity</b>	<b>4,276,515</b>	<b>24,385,208</b>	<b>4,921,669</b>	<b>33,583,392</b>
<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Segment revenue	613,566	228,699	-	842,265
Segment expenses	(86,050)	(143,305)	(366,981)	(596,336)
<b>Net profit</b>	<b>527,516</b>	<b>85,394</b>	<b>(366,981)</b>	<b>245,929</b>
Interest income	547,156	55,932	-	603,088
Interest expense	(80,928)	(137,972)	-	(218,900)
Depreciation and amortisation	-	-	(4,132)	(4,132)
Impairment charges on loans	(5,122)	-	-	(5,122)
<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
<b>Total segment assets</b>	<b>22,834,780</b>	<b>1,661,060</b>	<b>64,679</b>	<b>24,560,519</b>
Segment liabilities	17,702,871	2,897,236	57,744	20,657,851
Equity	-	-	3,902,668	3,902,668
<b>Total liabilities and equity</b>	<b>17,702,871</b>	<b>2,897,236</b>	<b>3,960,412</b>	<b>24,560,519</b>

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**25 SEGMENT ANALYSIS (continued)**

Reconciliation of segment results of operations to:

<b>31 December 2014</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest income	73,762	889,085	-	962,847
Fee and commissions income	-	35,365	-	35,365
Foreign exchange gain	-	-	(201,834)	(201,834)
Gains on financial instruments classified as held for trading, net	-	-	-	-
Other operating income	-	117,930	-	117,930
<b>Total segment revenue</b>	<b>73,762</b>	<b>1,042,380</b>	<b>(201,834)</b>	<b>914,308</b>

  

<b>31 December 2014</b>	<b>Corporate banking</b>	<b>Investment Banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest expense	(179,878)	(153,613)	-	(333,491)
Fee and commissions expense	(5,586)	-	-	(5,586)
Impairment charges on loans	(10,000)	-	-	(10,000)
Losses on financial instruments classified as held for trading, net	36,906	-	-	36,906
Other operating expenses	-	-	(176,998)	(176,998)
<b>Total segment expense</b>	<b>(158,558)</b>	<b>(153,613)</b>	<b>(176,998)</b>	<b>(489,169)</b>

  

<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest income	522,567	80,521	-	603,088
Fee and commissions income	4,159	-	-	4,159
Foreign exchange gain	-	-	-	-
Gains on financial instruments classified as held for trading, net	-	148,178	-	148,178
Other operating income	86,840	-	-	86,840
<b>Total segment revenue</b>	<b>613,566</b>	<b>228,699</b>	<b>-</b>	<b>842,265</b>

  

<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment Banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest expense	(80,928)	(137,972)	-	(218,900)
Fee and commissions expense	-	(5,333)	-	(5,333)
Impairment charges on loans	(5,122)	-	-	(5,122)
Foreign exchange losses	-	-	(220,466)	(220,466)
Losses on financial instruments classified as held for trading, net	-	-	-	-
Other operating expense	-	-	(146,515)	(146,515)
<b>Total segment expense</b>	<b>(86,050)</b>	<b>(143,305)</b>	<b>(366,981)</b>	<b>(596,336)</b>

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**26 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 2014</b>	<b>31 December 2013</b>
Due from banks:		
- Other related parties <sup>(1)</sup>	331,816	128,551
Loans and advances to customers:		
- Other related parties <sup>(2)</sup>	1,259,004	1,022,801
Trading securities:		
- Shareholder <sup>(3)</sup>	51,283	113,207
Investment securities (“Held to maturity”)		
- Shareholder <sup>(4)</sup>	296,954	241,334
Funds borrowed		
- Other related parties <sup>(5)</sup>	19,376,859	13,317,558
Other liabilities		
- Other related parties	-	-

<sup>(1)</sup> Average interest rate for due from banks is 4.36% (2013: 5.78%)

<sup>(2)</sup> Average interest rate for loans and advances to customers is 5.07% (2013: 4.25%)

<sup>(3)</sup> Average interest rate for trading securities is 3.63% (2013: 4.39%)

<sup>(4)</sup> Average interest rate for investment securities is 2.78% (2013: 4.47%)

<sup>(5)</sup> Average interest rate for funds borrowed is 0.98% (2013: 0.96%)

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

	<b>31 December 2014</b>	<b>31 December 2013</b>
Interest income on investment and trading securities:		
- Shareholder	29,163	3,472
Interest income on loans and advances to customers:		
- Other related parties	53,334	40,766
Interest expense on funds borrowed:		
- Other related parties	89,535	31,683
Operating expenses (taxes paid)		
-Other related parties	1,253	2,412

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

	<b>31 December 2014</b>	<b>31 December 2013</b>
Salaries and other short-term employee benefits	1,971	1,687
Post-employment benefits	-	-

**27 SUBSEQUENT EVENTS**

None.