

**Türkiye İhracat Kredi Bankası
Anonim Şirketi**

Financial Statements
As At and For The Interim Period Ended
30 June 2016
With Auditors' Review Report Thereon

12 August 2016

This report contains the "Auditors' Report on Review of Interim Financial Information" comprising 2 pages and; the "Financial statements and their explanatory notes" comprising 71 pages.

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AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of Türkiye İhracat Kredi Bankası AŞ

Introduction

We have reviewed the accompanying statement of financial position of Türkiye İhracat Kredi Bankası AŞ ("the Bank") as at 30 June 2016, the statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information. Management is responsible for the preparation and presentation of these interim financial information in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at and for the six-month period ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

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

Orhan Akova

Orhan Akova, SMMM
Partner



12 August 2016
Istanbul, Turkey

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

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

	<i>Notes</i>	30 June 2016	31 December 2015
ASSETS			
Cash and due from banks	6	2,026,923	165,629
Trading securities	7	11,484	10,593
Derivative financial instruments	8	50,487	3,712
Derivative assets held for risk management	4	107,597	105,138
Loans and advances to customers	9	49,241,865	43,053,740
Investment securities			
- Available-for-sale	10	19,259	18,051
- Held-to-maturity	10	281,707	255,968
Property and equipment	11	9,867	13,994
Intangible assets	12	2,089	2,228
Investment property	13	2,379	-
Other assets	14	1,228,402	663,297
Total assets		52,982,059	44,292,350
LIABILITIES			
Funds borrowed	15	39,343,786	33,109,841
Debt securities issued	15	6,561,209	5,088,218
Interbank money market deposits	15	200,000	200,000
Other liabilities and provisions	17	1,710,150	1,053,661
Derivative financial instruments	8	11,468	635
Derivative liabilities held for risk management	4	144,648	42,823
Retirement benefit obligations	18	17,216	15,664
Total liabilities		47,988,477	39,510,842
EQUITY			
	19		
- Share capital		3,700,000	2,500,000
- Adjustment to share capital		812,518	812,518
Total paid in share capital		4,512,518	3,312,518
Legal reserves		328,050	302,905
Other reserve		22,743	22,743
Hedging reserves		(663)	333
Fair value reserves		10,095	8,886
Retained earnings		120,839	1,134,123
Total equity		4,993,582	4,781,508
Total liabilities and equity		52,982,059	44,292,350

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

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF INCOME
FOR THE PERIOD ENDED 30 JUNE 2016

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

	<i>Notes</i>	1 January - 30 June 2016	1 January - 30 June 2015
Interest income	20	741,593	552,122
Interest expense	20	(317,021)	(223,499)
Net interest income		424,572	328,623
Fee and commission income		18,021	13,728
Fee and commission expense		(8,115)	(4,689)
Net fee and commission income		9,906	9,039
Impairment losses on loans and advances, net	9	(5,410)	(3,936)
Foreign exchange gain / (losses), net	21	25,527	(405,439)
Gains/(losses) on financial instruments classified as held for trading, net	22	(186,862)	345,294
Other operating income	23	65,590	52,509
Operating profit before operating expenses		333,323	326,090
Operating expenses	24	(117,791)	(105,601)
Net profit for the period		215,532	220,489

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 30 JUNE 2016

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

<i>Notes</i>	1 January – 30 June 2016	1 January – 30 June 2015
Net profit for the period	215,532	220,489
Other comprehensive income	-	-
<i>Items that will never be reclassified to profit or loss</i>	-	-
Net change in remeasurements of defined benefit liability	-	-
<i>Items that are or may be reclassified to profit or loss</i>	213	(1,486)
Net change in fair values of available-for-sale financial assets	213	(1,476)
Amortisation of the fair value gains of held to maturity investments previously classified as available-for-sale financial assets	-	(10)
Total comprehensive income for the period	215,745	219,003

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 30 JUNE 2016

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

	Notes	Share Capital	Adjustment to share capital	Total paid-in capital	Legal reserves	Other reserves	Hedging reserves	Fair value reserves	Retained earnings	Total equity
Balance at 1 January 2015	19	2,400,000	812,518	3,212,518	280,954	22,743	-	11,383	788,120	4,315,718
Profit for the period		-	-	-	-	-	-	-	220,489	220,489
Other comprehensive income for the period		-	-	-	-	-	-	(1,486)	-	(1,486)
Total comprehensive income		-	-	-	-	-	-	(1,486)	220,489	219,003
Capital increase		100,000	-	100,000	-	-	-	-	(100,000)	-
Dividends paid	19	-	-	-	-	-	-	-	(21,350)	(21,350)
Transfers to legal reserves		-	-	-	21,951	-	-	-	(21,951)	-
Balance at 30 June 2015		2,500,000	812,518	3,312,518	302,905	22,743	-	9,897	865,308	4,513,371
Balance at 1 January 2016		2,500,000	812,518	3,312,518	302,905	22,743	333	8,886	1,134,123	4,781,508
Profit for the period		-	-	-	-	-	-	-	215,532	215,532
Other comprehensive income for the period		-	-	-	-	-	(996)	1,209	-	213
Total comprehensive income		-	-	-	-	-	(996)	1,209	215,532	215,745
Capital increase	19	1,200,000	-	1,200,000	-	-	-	-	(1,200,000)	-
Dividends paid	19	-	-	-	-	-	-	-	(3,671)	(3,671)
Transfers to legal reserves		-	-	-	25,145	-	-	-	(25,145)	-
Balance at 30 June 2016	19	3,700,000	812,518	4,512,518	328,050	22,743	(663)	10,095	120,839	4,993,582

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

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2016

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

	<i>Notes</i>	1 January – 30 June 2016	1 January – 30 June 2015
Cash flows from operating activities:			
Net profit for the period		215,532	220,489
Adjustments for:			
Depreciation and amortisation	<i>24</i>	2,775	4,850
Provision for loan losses	<i>9</i>	5,410	3,936
Provision for employment termination benefits	<i>18</i>	1,552	1,251
Provision for unused vacation	<i>17</i>	1,388	1,366
Decrease in the fair value of trading securities		-	-
Net gain on sale of asset held for sale		-	(243)
Interest income, net	<i>20</i>	(424,572)	(328,623)
Interest paid		(317,021)	(216,711)
Interest received		720,124	542,478
Unrealised foreign exchange differences		(84,815)	531,799
Remeasurement of derivative financial instruments		161,892	55,872
		282,265	816,464
Net increase in loans and advances to customers		(6,175,710)	(7,275,428)
Net decrease in trading securities		6,358	(14,224)
Net (increase)/decrease in due from banks		(43)	822
Proceeds from borrowings		31,209,598	27,721,635
Repayments of borrowings		(24,975,653)	(22,149,805)
Net decrease/(increase) in other assets		(574,932)	(177,389)
Net increase in other liabilities		713,083	171,758
Net cash from / (used in) operating activities		484,966	(906,167)
Cash flows from/(used in) investing activities:			
Purchases of property and equipment	<i>11</i>	(697)	(4,873)
Proceeds from property and equipment	<i>11</i>	-	3,944
Purchases of investment securities	<i>10</i>	(18,250)	(11,492)
Redemption of investment securities	<i>10</i>	-	59,818
Purchases of intangible assets	<i>12</i>	(168)	(168)
Net cash (used in) / from investing activities		(19,115)	47,229
Cash flows from/(used in) financing activities:			
Proceeds from interbank money market deposit		-	9,936
Proceeds from issuance of debt securities		1,420,192	(19,373)
Dividends paid	<i>19</i>	(3,671)	(21,350)
Net cash from / (used in) financing activities		1,416,521	(30,787)
Effects of exchange-rate changes on cash and cash equivalents		(21,122)	77,761
Net increase/(decrease) in cash and cash equivalents		1,861,250	(811,964)
Cash and cash equivalents at the beginning of the period		165,629	1,065,931
Cash and cash equivalents at the end of the period		2,026,879	253,967

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

TÜRKİYE İHRACAT KREDİ BANKASI AŞ

NOTES TO THE FINANCIAL INFORMATION AS AT 30 JUNE 2016

(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 2015, the Bank has 3 branches in Ankara, Izmir and Gaziantep and 7 liaison offices in Bursa, Adana, Trabzon, Denizli, Kayseri, Gaziantep and Konya. As of 30 June 2016, the Bank employed 561 people (31 December 2015: 541 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 30 JUNE 2016

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

The financial statements of the Bank as at 30 June 2016 are authorised for issue by the management on 12 August 2016. 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 30 JUNE 2016

(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.

New and revised IFRSs in issue but not yet effective

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 9 - Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Bank is in the process of assessing the impact of the standard on the financial position or performance of the Bank.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing International Financial Reporting Standards (“IFRS”) standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Bank will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
NOTES TO THE FINANCIAL INFORMATION AS AT 30 JUNE 2016

(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 *(continued)*

IFRS 9 Financial Instruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IFRS 9 Financial Instruments (2014)

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 de-recognition 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 in the process of assessing the impact of the standard on financial position or performance of the Bank.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA *(continued)*

IFRS 15 Revenue from Contracts with Customers

The standard is the result of a joint project and IASB and Financial Accounting Standards Board (“FASB”) which replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Bank expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognising revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
NOTES TO THE FINANCIAL INFORMATION AS AT 30 JUNE 2016

(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 (continued)

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

IAS 7 Statement of Cash Flows has been amended as part of the IASB’s broader disclosure initiative to improve presentation and disclosure in financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

Amendments to IAS 12 Income Taxes– Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA (continued)

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Bank is in the process of assessing the impact of the amendment on financial position or performance of the Bank.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ
NOTES TO THE FINANCIAL INFORMATION AS AT 30 JUNE 2016

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

3 Significant accounting policies

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:

	EUR / TL	USD / TL
30 June 2016	3.2078	2.8865
31 December 2015	3.1821	2.9132

ii) Foreign operations

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

3.2 Interest

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 30 JUNE 2016

(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 an 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 30 JUNE 2016

(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 3rd Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states “The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520”, the exemption from Corporation Tax continues. Accordingly, current and deferred tax are 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 30 JUNE 2016

(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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NOTES TO THE FINANCIAL INFORMATION AS AT 30 JUNE 2016

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

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

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

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

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3 Significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Derivative financial instruments (continued)

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

In cash flow hedge accounting, if it is not continued to hedge because of termination, realization, sale, stop hedging and inefficient hedge effectiveness of hedging instruments, hedge oriented account amounts that realized under shareholders' equity will transferred to profit/loss accounts.

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".

Derivative instruments are re-measured at fair value after initial recognition. If the fair value of a derivative financial instrument is positive, it is disclosed under the main account "Financial assets at fair value through profit or loss" in "Derivative financial assets held for trading" and if the fair value difference is negative, it is disclosed under "Derivative financial liabilities held for trading". Differences in the fair value of trading derivative instruments are accounted under "trading income/loss" in the income statement.

The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

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.

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NOTES TO THE FINANCIAL INFORMATION AS AT 30 JUNE 2016

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

3 Significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

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.

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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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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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:

	Years
Buildings	50
Vehicles	5 years
Other tangible assets	1 - 50 years

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

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

3.14 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.

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3 Significant accounting policies *(continued)*

3.15 Investment Property

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

3.16 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.

3.17 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.

3.18 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.

3.19 Debt Securities

Debt securities issued are carried at “amortized cost” using the “effective interest method”, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

TÜRKİYE İHRACAT KREDİ BANKASI AŞ

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3 Significant accounting policies (continued)

3.20 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.

3.21 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.

3.22 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.

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4 FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

As of 30 June 2016, the loan portfolio of the Bank constitutes 93% (31 December 2015: 97%) 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 5th 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 groupings, 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:

	30 June 2016		31 December 2015	
	Corporate loans	Personnel loans	Corporate loans	Personnel Loans
Neither past due nor impaired	49,281,145	8,854	43,122,712	7,569
Past due but not impaired	80,848	-	52,441	-
Individually impaired	135,854	-	131,688	-
Total loans and advances to customers	49,497,847	8,854	43,306,841	7,569
Allowance for impairment losses	(135,854)	-	(131,688)	-
Collectively impaired loans	(128,982)	-	(128,982)	-
Net loans and advances to customers	49,233,011	8,854	43,046,171	7,569

As of 30 June 2016 and 31 December 2015, loans and advances that are past due but not impaired are as follows:

	30 June 2016	31 December 2015
Past due up to 30 days	56,588	48,298
Past due 30-60 days	6,545	-
Past due 60-90 days	4,022	4,143
Past due 90 days-one year	8,431	-
Past due over one year	5,262	-
Total loans and advances that are past due but not impaired	80,848	52,441

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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:

	30 June 2016		31 December 2015	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Standard loans and advances	49,281,145	8,854	43,093,837	7,569
Loans and advances under close monitoring ⁽¹⁾	80,848	-	81,316	-
Impaired loans and advances	135,854	-	131,688	-
Total loans and advances to customers	49,497,847	8,854	43,306,841	7,569
Allowance for impairment losses	(264,836)	-	(260,670)	-
Net loans and advances to customers	49,233,011	8,854	43,046,171	7,569

⁽¹⁾ As of 30 June 2016, loans and advances under close monitoring includes loans amounting to TL 76,024 (31 December 2015: TL 81,316) that were not past due but had been extended to customers whose other loans are under close monitoring.

As of 30 June 2016 and 31 December 2015 the fair value of collaterals held for total loans and advances are as follows:

	30 June 2016		31 December 2015	
	Corporate Loans	Personnel loans	Corporate loans	Personnel Loans
Loans guaranteed by other banks	43,426,659	-	37,725,505	-
Loans guaranteed by a third party	-	20,760	-	7,569
Total	43,426,659	20,760	37,725,505	7,569
Unsecured exposures ⁽¹⁾	5,916,177	-	5,581,336	-
Total loans and advances to customers	49,342,836	20,760	43,306,841	7,569

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

As of 30 June 2016, the Bank does not have repossessed collateral (31 December 2015: None).

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

4 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk *(continued)*

Bank’s credit rating 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 risk ratings of domestic 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, group companies, credit ratings from international credit rating institutions, quality of management and also information obtained from media.

As of 30 June 2016, loans granted by the Bank to banks and other financial institutions amount to TL 7,036,568 (31 December 2015: TL 5,971,809). As of 30 June 2016 and 31 December 2015, the concentration level of the loans and advances to domestic 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:

		30 June 2016	31 December 2015
	Rating class	Concentration level (%)	Concentration level (%)
Low	1-2	70	67
Medium	3	23	25
High	4	7	8

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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 30 June 2016 and 31 December 2015, the analysis of credit limits for top 60 corporate customers constituting approximately 43% and 43%, respectively, of total loans to corporate customers amounting to TL 20,965,191 (31 December 2015: TL 17,220,853) and whose loans are neither past due nor impaired at 30 June 2016 and 31 December 2015 is as follows;

Credit limits (TL)	30 June 2016	31 December 2015
	Concentration level (%)	Concentration level (%)
0 - 20,000	-	-
20,000 - 40,000	-	-
40,000 - 60,000	-	-
Over 60,000	100.00	100.00
Total	100.00	100.00

As of 30 June 2016 and 31 December 2015, the classification and allowance percentages of the loans and advances of the Bank are as follows:

	30 June 2016		31 December 2015	
	Loans and advances (%)	Allowance for loan losses (%)	Loans and advances (%)	Allowance for loan losses (%)
Standard loans and advances	99.57	0.26	99.51	0.29
Loans and advances under close monitoring	0.16	0.00	0.19	0.01
Impaired loans and advances	0.27	0.27	0.30	0.30
Total	100.00	0.53	100.00	0.60

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4 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

The Bank’s maximum exposure to credit risk as of 30 June 2016 and 31 December 2015:

	30 June 2016	31 December 2015
Credit risk exposures relating to on-balance sheet assets:		
Due from banks	2,026,923	165,629
Loans and advances to		
- Domestic banks and other financial institutions	5,851,807	5,281,278
- Foreign banks and other financial institutions	1,184,761	742,691
- Corporate customers other than banks and financial institutions and personnel	42,205,297	37,029,771
Derivative assets held for trading	50,487	3,712
Derivative assets held for risk management	107,597	105,138
Trading securities	11,484	10,593
Investment securities		
-Held-to-maturity	281,707	255,968
Credit risk exposures relating to off-balance sheet items:		
Financial guarantees	2,908,875	2,754,481
Total	54,628,938	46,349,261

There are no financial assets that are past due but not impaired and there are no past due or impaired financial assets at 30 June 2016 and 31 December 2015, other than loans and advances explained above. As of 30 June 2016 and 31 December 2015, 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 43% of due from banks account at 30 June 2016 and 64% of due from banks account at 31 December 2015;

		30 June 2016	31 December 2015
	Rating class	Concentration level (%)	Concentration level (%)
Low	1-2	48	63
Medium	3	50	36
High	4	2	1

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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 30 June 2016 and 31 December 2015 the geographical distribution of the on-balance sheet assets exposed to credit risk:

	Turkey	EU countries	OECD countries ⁽¹⁾	USA	Other Countries	Total
Cash and due from banks	869,963	919,426	667	164,705	72,162	2,026,923
Loans and advances to						
- Domestic banks and other financial institutions	5,851,807	-	-	-	-	5,851,807
- Foreign banks and other financial institutions	-	-	-	-	1,184,761	1,184,761
- Corporate customers and personnel	42,205,297	-	-	-	-	42,205,297
Trading securities	11,484	-	-	-	-	11,484
Derivative assets held for trading	-	50,487	-	-	-	50,487
Derivative assets held for risk management	-	107,597	-	-	-	107,597
Investment securities						
- Held-to-maturity	281,707	-	-	-	-	281,707
As of 30 June 2016	49,220,258	1,077,510	667	164,705	1,256,923	51,720,063

	Turkey	EU countries	OECD countries ⁽¹⁾	USA	Other countries	Total
Cash and due from banks	116,739	15,027	908	32,955	-	165,629
Loans and advances to						
- Domestic banks and other financial institutions	5,229,118	-	-	-	-	5,229,118
- Foreign banks and other financial institutions	-	-	-	-	742,691	742,691
- Corporate customers and personnel	37,081,931	-	-	-	-	37,081,931
Trading securities	10,593	-	-	-	-	10,593
Derivative assets held for trading	-	3,712	-	-	-	3,712
Derivative assets held for risk management	-	105,138	-	-	-	105,138
Investment securities						
- Held-to-maturity	255,968	-	-	-	-	255,968
As of 31 December 2015	42,694,349	123,877	908	32,955	742,691	43,594,780

⁽¹⁾ 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.

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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 30 June 2016 and 31 December 2015, 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:

	30 June 2016			31 December 2015		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	4,345	7,693	743	9,316	14,166	988
Equity share risk	-	-	-	-	-	-
Currency risk	4,443	6,223	2,003	4,854	10,106	12
Option risk	-	-	-	50	260	-
Counterparty credit risk	2,023	6,216	-	3,720	6,258	776
Total capital to be employed for market risk (A)	10,811	20,132	2,746	17,940	30,790	1,776
Total amount subject to market risk (A*12.5)	135,138	251,650	34,325	224,250	384,875	22,200

(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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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 30 June 2016 and 31 December 2015.

	30 June 2016				Total
	USD	EUR	Other	TL	
Cash and due from banks	648,326	1,045,476	3,656	329,465	2,026,923
Trading securities	-	-	-	11,484	11,484
Derivative financial instruments	31,389	-	17,448	1,650	50,487
Derivative assets held for risk management	107,078	-	-	519	107,597
Loans and advances to customers	22,233,964	18,325,627	17,576	8,664,698	49,241,865
Investment securities					
- Available-for-sale	-	-	-	19,259	19,259
- Held-to-maturity	-	-	-	281,707	281,707
Property and equipment and intangible assets	-	-	-	11,956	11,956
Investment property	-	-	-	2,379	2,379
Other assets	78,435	1,028,924	31	121,012	1,228,402
Total assets	23,099,192	20,400,027	38,711	9,444,129	52,982,059
Funds borrowed	22,569,758	16,098,025	676,003	-	39,343,786
Debt securities issued	6,561,209	-	-	-	6,561,209
Interbank money market deposits	-	-	-	200,000	200,000
Derivative financial instruments	9,813	-	-	1,655	11,468
Derivative liabilities held for risk management	-	-	-	144,648	144,648
Other liabilities	408,026	1,269,735	144	32,245	1,710,150
Reserve for employment termination Benefits	-	-	-	17,216	17,216
Equity	-	-	-	4,993,582	4,993,582
Total liabilities and equity	29,548,806	17,367,760	676,147	5,389,346	52,982,059
Net balance sheet position	(6,449,614)	3,032,267	(637,437)	4,054,784	-
Off balance sheet derivative instruments net notional position	6,529,197	(3,062,464)	655,709	(4,282,998)	(160,556)

At 30 June 2016, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 2.8865 = US Dollar 1 (“USD”) and TL 3.2078 = EUR 1.

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4 FINANCIAL RISK MANAGEMENT (continued)

(d) Currency risk (continued)

	31 December 2015				Total
	USD	EUR	Other	TL	
Cash and due from banks	106,599	12,851	3,285	42,894	165,629
Trading securities	-	-	-	10,593	10,593
Derivative financial instruments	2,918	-	5	789	3,712
Derivative assets held for risk management	79,868	-	-	25,270	105,138
Loans and advances to customers	20,831,868	15,330,721	32,058	6,859,093	43,053,740
Investment securities					
- Available-for-sale	-	-	-	18,051	18,051
- Held-to-maturity	-	-	-	255,968	255,968
Property and equipment and intangible assets	-	-	-	16,222	16,222
Other assets	45,269	513,163	24	104,841	663,297
Total assets	21,066,522	15,856,735	35,372	7,333,721	44,292,350
Funds borrowed	18,879,576	14,175,231	4,924	50,110	33,109,841
Debt securities issued	5,088,218	-	-	-	5,088,218
Interbank money market deposits	-	-	-	200,000	200,000
Derivative financial instruments	302	-	-	333	635
Derivative liabilities held for risk management	9,969	-	-	32,854	42,823
Other liabilities	286,030	658,113	57	109,461	1,053,661
Reserve for employment termination Benefits	-	-	-	15,664	15,664
Equity	333	-	-	4,781,175	4,781,508
Total liabilities and equity	24,264,428	14,833,344	4,981	5,189,597	44,292,350
Net balance sheet position	(3,197,906)	1,023,391	30,391	2,144,124	
Off balance sheet derivative instruments net notional position	3,263,994	(1,010,867)	(27,843)	(2,250,160)	(24,876)

At 31 December 2015, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 2.9132 = US Dollar 1 (“USD”) and TL 3.1821 = EUR 1.

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4 FINANCIAL RISK MANAGEMENT (continued)

(d) Currency risk (continued)

As of 30 June 2016 and 31 December 2015, 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.

	30 June 2016		31 December 2015	
	Effect on net profit	Effect on equity ⁽¹⁾	Effect on net profit	Effect on equity ⁽¹⁾
USD	6,949	7,958	6,576	6,609
EUR	(3,020)	(3,020)	1,252	1,252
Other currencies	1,827	1,827	255	255
Total	5,756	6,765	8,083	8,116

⁽¹⁾ Effect on equity also includes effect on net income.

As of 30 June 2016 and 31 December 2015, 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 30 June 2016 and 31 December 2015, the tables below summarize the Bank’s assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates;

	30 June 2016					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	1,146,523	-	-	-	880,400	2,026,923
Trading securities	-	-	2,056	9,428	-	11,484
Derivative financial instruments	32,514	17,973	-	-	-	50,487
Derivative assets held for risk management	17,103	90,494	-	-	-	107,597
Loans and advances to customers	20,612,597	28,144,980	484,288	-	-	49,241,865
Investment securities						
- Available-for-sale	-	-	-	-	19,259	19,259
- Held-to-maturity	136,364	145,343	-	-	-	281,707
Property and equipment and intangible assets	-	-	-	-	11,956	11,956
Investment property	-	-	-	-	2,379	2,379
Other assets	17,103	90,494	-	-	1,120,805	1,228,402
Total assets	21,962,204	28,489,284	486,344	9,428	2,034,799	52,982,059
Funds borrowed	15,576,942	18,570,548	3,953,728	1,242,568	-	39,343,786
Debt securities issued	2,924,353	3,578,490	58,366	-	-	6,561,209
Interbank money market deposits	200,000	-	-	-	-	200,000
Derivative financial instruments	1,349	10,119	-	-	-	11,468
Derivative liabilities held for risk management	67,562	77,086	-	-	-	144,648
Other liabilities	75,659	188,610	4,580	-	1,441,301	1,710,150
Reserve for employment termination benefits	-	-	-	-	17,216	17,216
Total liabilities	18,845,865	22,424,853	4,016,674	1,242,568	1,458,517	47,988,477
Net repricing gap	3,116,339	6,064,431	(3,530,330)	(1,233,140)	576,282	4,993,582

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4 FINANCIAL RISK MANAGEMENT (continued)

(e) Interest rate risk (continued)

	31 December 2015					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	146,366	-	-	-	19,263	165,629
Trading securities	-	-	1,963	8,630	-	10,593
Derivative financial instruments	966	2,746	-	-	-	3,712
Derivative assets held for risk management	21,667	83,471	-	-	-	105,138
Loans and advances to customers	17,892,645	24,458,461	693,138	9,496	-	43,053,740
Investment securities						
- Available-for-sale	-	-	-	-	18,051	18,051
- Held-to-maturity	59,399	186,633	9,936	-	-	255,968
Property and equipment and intangible assets	-	-	-	-	16,222	16,222
Other assets	-	-	-	-	663,297	663,297
Total assets	18,122,009	24,734,058	705,037	18,126	713,120	44,292,350
Funds borrowed	15,309,882	17,799,959	-	-	-	33,109,841
Debt securities issued	-	3,560,744	57,340	1,470,134	-	5,088,218
Interbank money market deposits	200,000	-	-	-	-	200,000
Derivative financial instruments	302	333	-	-	-	635
Derivative liabilities held for risk management	3,746	39,077	--	-	-	42,823
Other liabilities	9,656	166,085	5,085	-	872,835	1,053,661
Reserve for employment termination benefits	-	-	-	-	15,664	15,664
Total liabilities	15,523,586	21,566,198	62,425	1,470,134	888,499	39,510,842
Net repricing gap	2,598,423	3,167,860	642,612	(1,452,008)	(175,379)	4,781,508

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4 FINANCIAL RISK MANAGEMENT (continued)

(e) Interest rate risk (continued)

The tables below summarize the range for effective average interest rates by major currencies for monetary financial instruments of the Bank at 30 June 2016 and 31 December 2015:

	30 June 2016			
	USD (%)	EUR (%)	JPY (%)	TL (%)
Assets				
Cash and due from banks				
-Time deposits in foreign banks	0.51	0.29	-	-
-Time deposits in domestic banks	-	-	-	10.21
-Interbank money market placements	-	-	-	12.30
Trading securities	-	-	-	7.94
Loans and advances to customers	2.01	1.57	2.09	8.54
Investment securities				
-Held-to-maturity	-	-	-	10.80
Liabilities				
Funds borrowed	0.86	0.55	-	-
Debt securities issued	5.38	-	-	-
Interbank money market deposits	-	-	-	8.82
31 December 2015				
	USD (%)	EUR (%)	JPY (%)	TL (%)
Assets				
Cash and due from banks				
-Time deposits in foreign banks	0.36	0.30	-	-
-Time deposits in domestic banks	-	-	-	10.77
-Interbank money market placements	-	-	-	10.30
Trading securities	4.44	-	-	6.02
Loans and advances to customers	1.80	1.68	1.93	7.91
Investment securities				
-Held-to-maturity	6.81	-	-	10.00
Liabilities				
Funds borrowed	0.64	0.61	-	11.35
Debt securities issued	5.35	-	-	-
Interbank money market deposits	-	-	-	10.11

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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 30 June 2016 and 31 December 2015. The sensitivity of the shareholders’ equity at 30 June 2016 and 31 December 2015 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.

30 June 2016	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders’ equity – losses/ shareholders’ equity (%)
1	TL	500	(103,886)	(2.03)
		(400)	89,735	1.75
2	EURO	200	(9,137)	(0.18)
		(200)	665	0.01
3	USD	200	113,200	2.21
		(200)	(134,502)	(2.63)
Total (For negative shocks)			(44,102)	(0.87)
Total (For positive shocks)			177	0.00

31 December 2015	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders’ equity – losses/ shareholders’ equity (%)
1	TL	500	(107,610)	(2.18)
		(400)	93,263	1.89
2	EURO	200	(9,982)	(0.20)
		(200)	1,572	0.03
3	USD	200	128,080	2.59
		(200)	(144,744)	(2.93)
Total (For negative shocks)			(49,909)	(1.01)
Total (For positive shocks)			10,488	0.21

(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 30 June 2016, the Liquidity Coverage Ratio is as follows:

Current Period (30.06.2016)		Total Unweighted Value (Average) (*)		Total Weighted Value (Average) (*)	
		TL+FC	FC	TL+FC	FC
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)			71,540	-
CASH OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-
3	Stable deposits	-	-	-	-
4	Less stable deposits	-	-	-	-
5	Unsecured wholesale funding, of which:	-	-	-	-
6	Operational deposits	-	-	-	-
7	Non-operational deposits	-	-	-	-
8	Other unsecured funding	4,517,572	4,517,572	2,408,288	2,408,288
9	Secured funding			-	-
10	Other cash outflows of which:	-	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	57,646	33,947	57,646	33,946
12	Outflows related to restructured financial instruments	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	1,258,645	1,254,971	503,457	501,988
14	Other revocable off-balance sheet commitments and contractual obligations	10,395,510	8,414,999	519,775	420,749
15	Other irrevocable or conditionally revocable off-balance sheet obligations	2,796,977	2,796,977	139,848	139,848
16	TOTAL CASH OUTFLOWS			3,629,015	3,504,820
CASH INFLOWS					
17	Secured receivables	-	-	-	-
18	Unsecured receivables	5,923,984	4,534,431	3,696,919	2,606,643
19	Other cash inflows	9,978	9,587	9,977	9,586
20	TOTAL CASH INFLOWS	5,933,962	4,544,018	3,706,896	2,616,229
				Max Limit applied values	
21	TOTAL HQLA			71,540	-
22	TOTAL NET CASH OUTFLOWS			949,010	1,152,557
23	LIQUIDITY COVERAGE RATIO (%)			7.54%	-

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

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4 FINANCIAL RISK MANAGEMENT (continued)

(f) Liquidity risk (continued)

Prior Period (31.12.2015)		Total Unweighted Value (Average) (*)		Total Weighted Value (Average) (*)	
		TL+FC	FC	TL+FC	FC
HIGH-QUALITY LIQUID ASSETS					
1	Total high-quality liquid assets (HQLA)			57,724	-
CASH OUTFLOWS					
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-
3	Stable deposits	-	-	-	-
4	Less stable deposits	-	-	-	-
5	Unsecured wholesale funding, of which:	-	-	-	-
6	Operational deposits	-	-	-	-
7	Non-operational deposits	-	-	-	-
8	Other unsecured funding	4,112,767	4,108,482	2,063,047	2,058,761
9	Secured funding			-	-
10	Other cash outflows of which:	-	-	-	-
11	Outflows related to derivative exposures and other collateral requirements	1,003,858	681,653	1,003,857	681,652
12	Outflows related to restructured financial instruments	-	-	-	-
13	Payment commitments and other off-balance sheet commitments granted for debts to financial markets	6,950	4,702	2,780	1,881
14	Other revocable off-balance sheet commitments and contractual obligations	9,771,219	7,686,049	488,560	384,302
15	Other irrevocable or conditionally revocable off-balance sheet obligations	-	-	-	-
16	TOTAL CASH OUTFLOWS			3,558,244	3,126,596
CASH INFLOWS					
17	Secured receivables	-	-	-	-
18	Unsecured receivables	5,666,804	4,506,735	3,638,772	2,752,493
19	Other cash inflows	931,742	919,637	931,742	919,636
20	TOTAL CASH INFLOWS	6,598,546	5,426,372	4,570,514	3,672,129
				Max Limit Applied Values	
21	TOTAL HQLA			57,724	-
22	TOTAL NET CASH OUTFLOWS			889,561	782,309
23	LIQUIDITY COVERAGE RATIO (%)			6.49%	-

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

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

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

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4 FINANCIAL RISK MANAGEMENT (continued)

(f) Liquidity risk (continued)

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

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

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

None.

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

None.

As of 30 June 2016 and 31 December 2015, 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.

	30 June 2016					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	1,146,523	-	-	-	880,400	2,026,923
Trading securities	-	-	2,056	9,428	-	11,484
Derivative financial instruments	32,514	525	17,448	-	-	50,487
Derivative assets held for risk management	-	2,981	104,616	-	-	107,597
Loans and advances to customers	13,260,244	24,368,394	11,026,589	586,638	-	49,241,865
Investment securities						
- Available-for-sale	-	-	-	-	19,259	19,259
- Held-to-maturity	77,059	162,100	42,548	-	-	281,707
Property and equipment and intangible assets	-	-	-	-	11,956	11,956
Investment property	-	-	-	-	2,379	2,379
Other assets	-	-	-	-	1,228,402	1,228,402
Total assets	14,516,340	24,534,000	11,193,257	596,066	2,142,396	52,982,059
Funds borrowed	12,722,867	19,779,771	4,951,570	1,889,578	-	39,343,786
Debt securities issued	74,244	1,632,302	3,712,095	1,142,568	-	6,561,209
Interbank market deposits	200,000	-	-	-	-	200,000
Derivative financial instruments	1,196	733	-	9,539	-	11,468
Derivative liabilities held for risk management	67,562	77,086	-	-	-	144,648
Other liabilities	74,311	130,690	52,379	-	1,452,770	1,710,150
Reserve for employment termination benefits	-	-	-	-	17,216	17,216
Total liabilities	13,140,180	21,620,582	8,716,044	3,041,685	1,469,986	47,988,477
Net liquidity gap	1,376,160	2,913,418	2,477,213	(2,445,619)	672,410	4,993,582

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4 FINANCIAL RISK MANAGEMENT (continued)

(f) Liquidity risk (continued)

	31 December 2015					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	146,366	-	-	-	19,263	165,629
Trading securities	-	-	1,963	8,630	-	10,593
Derivative financial instruments	966	431	-	2,315	-	3,712
Derivative assets held for risk management	21,667	10,352	73,119	-	-	105,138
Loans and advances to customers	11,338,564	20,309,902	11,276,158	129,116	-	43,053,740
Investment securities						
- Available-for-sale	-	-	-	-	18,051	18,051
- Held-to-maturity	-	157,332	98,636	-	-	255,968
Property and equipment and intangible assets	-	-	-	-	16,222	16,222
Other assets	-	-	-	-	663,297	663,297
Total assets	11,507,563	20,478,017	11,449,876	140,061	716,833	44,292,350
Funds borrowed	11,275,192	17,296,567	2,906,076	1,632,006	-	33,109,841
Debt securities issued	-	1,448,498	2,169,586	1,470,134	-	5,088,218
Interbank market deposits	200,000	-	-	-	-	200,000
Derivative financial instruments	236	376	23	-	-	635
Derivative liabilities held for risk management	3,800	29,077	9,946	-	-	42,823
Other liabilities	9,408	83,703	87,479	-	873,071	1,053,661
Reserve for employment termination benefits	-	-	-	-	15,664	15,664
Total liabilities	11,488,636	18,858,221	5,173,110	3,102,140	888,735	39,510,842
Net liquidity gap	18,927	1,619,796	6,276,766	(2,962,079)	(171,902)	4,781,508

The undiscounted cash flows of the financial liabilities of the Bank into relevant maturity groupings based on the remaining period at 30 June 2016 and 31 December 2015 to the contractual maturity dates are presented in the tables below:

	30 June 2016						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	39,343,786	12,704,324	19,873,363	5,162,174	2,202,140	-	39,942,001
Debt securities issued	6,561,209	74,869	1,684,121	4,461,490	1,479,331	-	7,699,811
Interbank money market deposits	200,000	200,048	-	-	-	-	200,048
Other financial liabilities ⁽¹⁾	1,500,325	1,196	49,344	47,799	9,540	1,392,446	1,500,325
Total financial liabilities	47,605,320	12,980,437	21,606,828	9,671,463	3,691,011	1,392,446	49,342,185

⁽¹⁾ Tax liabilities amount to TL 6,749 funds amount to TL 13 and unearned income accruals and suspend account amounts to TL 203,063 are not included in other financial liabilities.

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4 FINANCIAL RISK MANAGEMENT (continued)

(f) Liquidity risk (continued)

	31 December 2015						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	33,109,841	11,261,726	17,258,998	2,891,137	1,748,342	-	33,160,203
Debt securities issued	5,088,218	36,415	1,699,707	2,797,182	1,529,430	-	6,062,734
Interbank money market deposits	200,000	200,214	-	-	-	-	200,214
Other financial liabilities ⁽¹⁾	960,357	9,644	83,703	87,479	-	779,531	960,357
Total financial liabilities	39,358,416	11,507,999	19,042,408	5,775,798	3,277,772	779,531	40,383,508

⁽²⁾ Tax liabilities amount to TL 5,608 funds amount to TL 16 and unearned income accruals and suspend account amounts to TL 87,680 are not included in other financial liabilities.

The undiscounted cash inflows and outflows of derivative transactions of the Bank at 30 June 2016 and 31 December 2015 are presented in the tables below:

	30 June 2016					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years		
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	1,673,804	81,882	917,428	262,114		2,935,228
- Inflow	1,708,513	83,653	943,770	236,903		2,972,839
Interest rate derivatives:						
- Outflow	-	338,440	-	-		338,440
- Inflow	1,779	336,430	-	-		338,209
Derivatives held for risk management						
Foreign exchange derivatives:						
- Outflow	1,394,039	2,869,003	389,657	-		4,652,699
- Inflow	1,311,945	2,701,057	451,593	-		4,464,595
Interest rate derivatives:						
- Outflow	33,164	1,600,022	3,264,530	444,805		5,342,521
- Inflow	36,632	1,612,515	3,288,230	444,611		5,381,988
Total outflow	3,101,007	4,889,347	4,571,615	706,919		13,268,888
Total inflow	3,058,869	4,733,655	4,683,593	681,514		13,157,631

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4 FINANCIAL RISK MANAGEMENT (continued)

(f) Liquidity risk (continued)

	31 December 2015				Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	
Derivatives held for trading:					
Foreign exchange derivatives:					
- Outflow	223,348	97,069	1,032,440	804,199	2,157,056
- Inflow	226,759	106,882	1,146,492	781,217	2,261,350
Interest rate derivatives:					
- Outflow	44,079	265,911	-	-	309,990
- Inflow	45,099	264,642	-	-	309,741
Derivatives held for risk management					
Foreign exchange derivatives:					
- Outflow	945,945	1,373,971	-	-	2,319,916
- Inflow	947,692	1,283,220	-	-	2,230,912
Interest rate derivatives:					
- Outflow	-	1,622,008	1,621,432	-	3,243,440
- Inflow	-	1,639,056	2,038,056	-	3,677,112
Total outflow	1,213,372	3,358,959	2,653,872	804,199	8,030,402
Total inflow	1,219,550	3,293,800	3,184,548	781,217	8,479,115

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4 FINANCIAL RISK MANAGEMENT (continued)

(g) Derivative financial instruments held for hedging purposes

Starting from 1 January 2013, the Bank has hedged the possible fair value effects of changes in libor interest rates on 5.375% and 5.875% fixed interest rate debt securities amounting USD 500 million with maturity 5 years and USD 610 million with maturity 7 years 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 USD 500 million (1,443,250 TL) 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 3,994,710 related to interest rate changes with forward transactions by using fair value hedge accounting. Changes in the fair value of forward transactions related to TL interest rate risks hedges fair value risk of the TL denominated CBRT Rediscount Loans related to changes in interest rates.

Fair value hedge accounting

Starting from 1 January 2013, the Bank uses “Fair value hedges” accounting.

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

30 June 2016					
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	42,439	80,406	-
Forward Transactions	Originated CBT-Rediscount TL Loans	Interest rate risk	6,636	519	144,648
31 December 2015					
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	2,714	50,690	9,969
Forward Transactions	Originated CBT-Rediscount TL Loans	Interest rate risk	(4,244)	25,270	32,854

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

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4 FINANCIAL RISK MANAGEMENT (continued)

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

Fair value hedge accounting (continued)

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Trading gains and losses on derivative financial instruments” account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (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

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

Cash Flow hedge accounting

Starting from 13 August 2015, the Bank uses “Cash flow hedge” accounting.

The impact of application cash flow hedge accounting is summarised below:

30 June 2016					
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
Cross currency swap	Fixed interest rate US dollar debt securities	Currency risk	(663)	26,672	-

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

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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 reporting 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 and debt securities 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.

(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 reporting date.

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4 FINANCIAL RISK MANAGEMENT (continued)

(h) Fair value of financial instruments (continued)

(iv) Fair value of financial assets and liabilities

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

	30 June 2016		31 December 2015	
	Carrying value	Fair Value	Carrying value	Fair value
Financial assets:				
Cash and due from banks	2,026,923	2,026,923	165,629	165,629
Investment securities				
- Held to maturity	281,707	295,067	255,968	262,125
- Available for sale	4,879 ⁽¹⁾	4,879	4,370 ⁽¹⁾	4,370
Loans and advances to customers ⁽²⁾	49,241,865	50,270,407	43,053,740	44,443,714
Financial liabilities:				
Funds borrowed	39,343,786	40,192,475	33,109,841	33,572,245
Debt securities issued	6,561,209	6,986,730	5,088,218	6,062,734
Interbank money market deposits	200,000	200,000	200,000	200,000

⁽¹⁾ Garanti Faktoring Hizmetleri AŞ shares amounting to TL 14,380 are not included (31 December 2015: TL 13,681).

⁽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.

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 and debt securities are determined as Level 2.

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4 FINANCIAL RISK MANAGEMENT (continued)

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

(iv) **Fair value of financial assets and liabilities** (continued)

The following table summarises the fair values of those financial assets and liabilities presented on the Bank’s statement of financial position based on the hierarchy of valuation technique as of 30 June 2016 and 31 December 2015.

30 June 2016	Level 1⁽¹⁾	Level 2⁽²⁾	Level 3⁽³⁾	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	11,484	-	-	11,484
- Derivatives	-	50,487	-	50,487
Derivative asset held for risk management	-	107,597	-	107,597
Available-for-sale financial assets				
- Investment securities - equity ⁽⁴⁾	14,380	-	-	14,380
Total assets	25,864	158,084	0	183,948
Financial liabilities at fair value through profit and loss				
Financial liabilities held for trading				
- Derivatives	-	11,468	-	11,468
Derivative asset held for risk management	-	144,648	-	144,648
Total liabilities	-	156,116	-	156,116

(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 amounting to TL 4,879 are excluded.

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4 FINANCIAL RISK MANAGEMENT (continued)

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

(iv) **Fair value of financial assets and liabilities** (continued)

31 December 2015	Level 1⁽¹⁾	Level 2⁽²⁾	Level 3⁽³⁾	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	10,593	-	-	10,593
- Derivatives	-	3,712	-	3,712
Derivative asset held for risk management	-	105,138	-	105,138
Available-for-sale financial assets				
- Investment securities - equity ⁽⁴⁾	13,681	-	-	13,681
Total assets	24,274	108,850	-	133,124

Financial liabilities at fair value through profit and loss

Financial liabilities held for trading

- Derivatives - 635 - 635

Derivative asset held for risk management - 42,823 - 42,823

Total liabilities - **43,458** - **43,458**

(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 amounting 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 30 June 2016 and 31 December 2015 were as follows:

	30 June 2016	31 December 2015⁽¹⁾
Tier I capital	4,987,574	4,815,117
Tier II capital	130,214	130,214
Total regulatory capital	5,117,788	4,945,331
Amount subject to credit risk	29,442,360	25,124,025
Amount subject to market risk	121,200	166,538
Amount subject to operational risk	1,075,642	826,100
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks (%)	16.70	18.94
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks (%)	16.28	18.44

⁽¹⁾ 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

	30 June 2016	31 December 2015
Cash funds:		
Cash on hand	23	29
	23	29
Current accounts and demand deposits:		
Central Bank of Republic of Turkey (CBRT)	589	1,198
Foreign banks	1,077,260	48,890
	1,077,849	50,088
Time deposits:		
Foreign banks	79,700	-
Domestic banks	869,351	115,512
	949,051	115,512
Interbank money market placements	-	-
Total cash and due from banks	2,026,923	165,629

Cash and cash equivalents included in the statements of cash flows for the period ended 30 June 2016 and 31 December 2015 is as follows:

	30 June 2016	31 December 2015
Cash and due from banks	2,026,923	165,629
Less: interest accruals	(44)	-
Cash and cash equivalents	2,026,879	165,629

Cash and cash equivalents are mainly composed of bank deposits as of 30 June 2016 and 31 December 2015.

7 TRADING SECURITIES

	30 June 2016	31 December 2015
Government bonds	11,484	10,593
Total	11,484	10,593

As of 30 June 2016, The Bank has securities subject to repurchase transactions which is amounting to TL 9,380 (31 December 2015: TL 6,986).

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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 30 June 2016 and 31 December 2015 are set out in the following table:

	30 June 2016		31 December 2015	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
Interest rate and currency swaps purchases and sales	31,389	-	1	(248)
Forward purchases and sales	1,650	-	413	(308)
Foreign currency swaps purchases and sales	-	(1,655)	982	(79)
Cross currency and basis swaps purchases and sales	17,448	(9,813)	2,316	-
Option purchases and sales	-	-	-	-
Total derivative assets/(liabilities)	50,487	(11,468)	3,712	(635)

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 25.

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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;

	30 June 2016	31 December 2015
Short-term		
Financial institutions	4,095,159	3,866,424
Export guaranteed loans	1,231,086	1,424,433
Specialised loans	168,370	179,416
Discount loans	26,412,018	22,393,234
Other guaranteed loans	303	196
	31,906,936	27,863,703
Medium and long-term		
Financial institutions	1,740,728	1,414,854
Export guaranteed loans	10,320,157	9,539,491
Foreign country loans (political risks)	1,203,613	756,416
Specialised loans	373,662	400,847
Export guaranteed investment loans	3,266,341	2,710,263
Other	478,562	415,336
	17,383,063	15,237,207
Performing loans	49,289,999	43,100,910
Loans under close monitoring	80,848	81,812
Impaired loans and advances	135,854	131,688
Gross loans and advances to customers	49,506,701	43,314,410
Allowance for loan losses	(264,836)	(260,670)
Net loans and advances to customers	49,241,865	43,053,740

The Bank provides impairment provision for non-performing loans amounting to TL 135,854 (31 December 2015: TL 131,688) comprising 0.27% (31 December 2015: 0.31%) of the total loans outstanding at 30 June 2016. The Bank also provided an additional impairment provision amounting to TL 128,982 (31 December 2015: 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 30 June 2016 and 30 June 2015 are as follows:

	30 June 2016	30 June 2015
Balance at the beginning of the period	260,670	256,460
Recoveries and reversals	(1,244)	(4,990)
Provision for the period	5,410	9,200
Balance at the end of the period	264,836	260,670

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

	30 June 2016	31 December 2015
Public sector	2,806,537	2,150,857
Private sector	46,700,164	41,163,553
	49,506,701	43,314,410

10 INVESTMENT SECURITIES

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

	30 June 2016	31 December 2015
Equity securities		
- Listed	14,380	13,681
- Unlisted	4,879	4,370
Total available-for-sale securities	19,259	18,051

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 30 June 2016 and 31 December 2015 are as follows:

	Share %		Carrying amount		Business
	30 June 2016	31 December 2015	30 June 2016	31 December 2015	
Equity securities					
Garanti Faktoring Hizmetleri AŞ	9.78	9.78	14,380	13,681	Factoring
Kredi Garanti Fonu AŞ	1.69	1.75	4,719	4,210	Financial services
Istanbul Stock Exchange	-	-	160	160	Financial services
			19,259	18,051	

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10 INVESTMENT SECURITIES (continued)

(b) Held-to-maturity securities:

	30 June 2016	31 December 2015
Debt securities		
- Government bonds	281,707	255,968
Total held-to-maturity securities	281,707	255,968

As of 30 June 2016, government bonds and treasury bills amounting to TL 12,271 (31 December 2015: TL 12,258) have been pledged as collateral with the CBRT and Istanbul Stock Exchange-Settlement and Custody Bank.

The movement of held-to-maturity securities for the year ended 30 June 2016 and 31 December 2015 are as follows:

	30 June 2016	31 December 2015
Balance at 1 January	255,968	296,954
Purchases	18,250	160,054
Redemptions	-	(204,489)
Foreign exchange difference	286	5,613
Interest income accruals	7,203	(2,164)
Total held-to-maturity securities at the end of the period	281,707	255,968

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11 PROPERTY AND EQUIPMENT

	Buildings	Vehicles	Other tangible assets	Total
Cost				
Opening balance, 1 January 2015	20,149	2,971	13,737	36,857
Additions	-	-	1,641	1,641
Disposals	(3,483)	(160)	(18)	(3,661)
Closing balance, 31 December 2015	16,666	2,811	15,360	34,837
Accumulated depreciation:				
Opening balance, 1 January 2015	8,304	1,317	8,665	18,286
Additions	140	571	4,163	4,874
Disposals	(2,141)	(160)	(16)	(2,317)
Closing balance, 31 December 2015	6,303	1,728	12,812	20,843
Cost				
Opening balance, 1 January 2016	16,666	2,811	15,360	34,837
Additions	-	352	345	697
Disposals	-	-	(177)	(177)
Transfers ^(*)	-	-	(4,566)	(4,566)
Closing balance, 30 June 2016	16,666	3,163	10,962	30,791
Accumulated depreciation:				
Opening balance, 1 January 2016	6,303	1,728	12,812	20,843
Additions	1,652	314	448	2,414
Disposals	(31)	-	(169)	(200)
Transfer ^(*)	-	-	(2,133)	(2,133)
Closing balance, 30 June 2016	7,924	2,042	10,958	20,924
As at 30 June 2015, net book value	10,425	1,368	3,360	15,153
As at 31 December 2015, net book value	10,363	1,083	2,548	13,994
As at 30 June 2016, net book value	8,742	1,121	4	9,867

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

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12 INTANGIBLE ASSETS

	Intangible assets
Cost	
Opening balance, 1 January 2015	4,008
Additions	903
Disposals	-
Closing balance, 31 December 2015	4,911
Accumulated amortisation:	
Opening balance, 1 January 2015	2,135
Additions	548
Disposals	-
Closing balance, 31 December 2015	2,683
Cost	
Opening balance, 1 January 2016	4,911
Additions	168
Disposals	-
Closing balance, 30 June 2016	5,079
Accumulated amortisation:	
Opening balance, 1 January 2016	2,683
Additions	307
Disposals	-
Closing balance, 30 June 2016	2,990
As at 30 June 2015, net book value	1,781
As at 31 December 2015, net book value	2,228
As at 30 June 2016, net book value	2,089

13 INVESTMENT PROPERTY

As of 30 June 2016, The Bank has net investment property amounting to TL 2,379 (31 December 2015: None).

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

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14 OTHER ASSETS

	30 June 2016	31 December 2015
Financial assets		
Guarantees given	1,079,813	543,715
Upfront fees paid	107,630	93,174
Receivables from banks	-	14,183
Notes receivable	11,670	9,858
Receivables from Reassurance Companies	5,238	6,959
Other	24,051	9,591
	1,228,402	677,480
Provision for impairment on other assets	-	(14,183)
	1,228,402	663,297

15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS

	30 June 2016	31 December 2015
Interbank money market deposits – TL	200,000	200,000
Domestic banks ^(*)	27,471,727	23,759,796
Foreign banks	11,872,059	9,350,045
Funds borrowed	39,343,786	33,109,841
Funds borrowed and interbank money market deposits total	39,543,786	33,309,841

^(*) Include subordinated loans amounting to TL 96,236 (31 December 2015: TL 121,402) and interest accruals amounting to TL 174 (31 December 2015: TL 189).

Interest rate for interbank money market deposits are between 8.72% - 8.90% (31 December 2015: between 8.84% - 14.17%) and the maturity date of such deposits is 1 July 2016 (31 December 2015: maturity date is 1 January 2015).

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15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS (continued)

The breakdown of funds borrowed as of 30 June 2016 and 31 December 2015 is as follows:

30 June 2016	Interest rate	Original currency amount (thousands)	Original currency	TL	Maturity date (year)
Due to Central Bank	(LIBOR/EURIBOR + 0%)			26,142,130	
CBRT Loan		6,060,932	USD	17,494,880	-
CBRT Loan		2,693,602	EUR	8,640,538	-
CBRT Loan		1,728	GBP	6,712	-
Due to IFIs	(LIBOR/EURIBOR + 0.01% - 1.859%)			3,336,819	
World Bank (EFIL) Loans		182,951	USD	528,089	01.03.2038
World Bank (EFIL) Loans		48,871	EUR	156,768	01.03.2038
European Investment Bank		107,708	USD	310,900	16.01.2024- 29.07.2024
European Investment Bank		476,622	EUR	1,528,907	17.12.2021- 29.07.2024
Counsel of Europe Development Bank		100,002	EUR	320,787	26.10.2022- 16.05.2023
Islamic Development Bank		170,230	USD	491,368	14.04.2026
Due to Commercial Banks	(LIBOR/EURIBOR + 0.6% – 2.60%)			9,768,427	
ING Financial Services Plc		200,547	EUR	643,313	11.11.2020 13.01.2017-
ABC International		77,491	EUR	248,575	24.05.2017 20.10.2016-
ABC International		37,106	USD	107,106	15.12.2016 09.08.2016-
ICBC		50,794	USD	146,616	16.08.2016 05.05.2017-
Standard Chartered		100,251	USD	289,374	22.05.2017 27.07.2016-
Commercial Bank of Qatar		60,422	USD	174,410	18.05.2017
Vida Finance Plc		23,815,654	JPY	669,291	17.06.2019
Credit Europe Bank N.V.		20,011	EUR	64,192	02.06.2017 05.04.2017-
Isbank AG		10,159	EUR	32,589	03.05.2017
Emirates NBD		22,634	USD	65,334	23.02.2017
Emirates NBD		22,510	EUR	72,207	15.06.2017 11.07.2016-
ITFC		404,356	USD	1,167,172	18.10.2016 01.09.2016-
HSBC		48,125	USD	138,912	12.06.2017 23.01.2017-
HSBC		23,765	EUR	76,234	10.05.2017 18.11.2016-
Doha Bank		25,090	USD	72,423	19.01.2017 02.09.2016-
Mizuho Corporate Bank		150,265	EUR	482,019	26.05.2017
ING Bank N.V.		50,340	EUR	161,480	27.01.2017 03.11.2016-
Bank of Tokyo Mitsubishi		101,140	EUR	324,436	01.06.2017 25.07.2016-
Citibank Europe Plc		145,309	USD	419,434	24.05.2017 23.08.2016-
TSKB		50,022	EUR	160,459	06.09.2016
Yapı Kredi Bank		14,009	USD	40,437	15.08.2016
Syndicated loan with MIGA Guarantee		188,473	USD	544,026	28.03.2025
Syndicated loan with MIGA Guarantee		100,206	EUR	321,442	28.03.2025 18.07.2016-
Syndicated loan		167,285	USD	482,867	21.03.2018 18.07.2016-
Syndicated loan		892,848	EUR	2,864,079	21.03.2018
Others	(LIBOR/EURIBOR + 0.5%)			96,410	
Subordinated loan		33,400	USD	96,410	15.04.2018
Total funds borrowed		13,026,450⁽²⁾		39,343,786	

(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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15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS (continued)

31 December 2015	Interest rate	Original currency amount (thousands)	Original currency	TL	Maturity date (year)
LIBOR/EURIBOR + 0% - 0.20%)				22,588,506	
Due to Central Bank					
CBRT Loan		5,260,787	USD	15,325,724	-
CBRT Loan		2,280,839	EUR	7,257,858	-
CBRT Loan		1,140	GBP	4,924	-
(LIBOR/EURIBOR + 0.01% -1.859%)				2,395,830	
Due to IFIs					
World Bank (EFIL) Loans		187,107	USD	545,081	01.03.2038
World Bank (EFIL) Loans		49,981	EUR	159,045	01.03.2038
European Investment Bank		111,398	USD	324,524	16.01.2024- 29.07.2024
European Investment Bank Counsel of Europe Development Bank		379,644	EUR	1,208,067	17.12.2021- 29.07.2024
		50,003	EUR	159,113	26.10.2022
(LIBOR/EURIBOR + 1.05% - 2.5778%)				8,003,914	
Due to Commercial Banks					
ING Financial Services Plc		200,547	EUR	638,160	11.11.2020 13.01.2016-
ABC International		97,633	EUR	310,679	11.05.2016 20.10.2016-
ABC International		37,092	USD	108,057	15.12.2016 09.08.2016-
ICBC		50,344	USD	146,661	16.08.2016 03.05.2016-
Standard Chartered		100,231	USD	291,992	23.05.2016 16.05.2016-
Commercial Bank of Qatar		44,546	USD	129,771	21.06.2016
Garanti International N.V.		10,021	USD	29,192	18.05.2016
Credit Europe Bank N.V.		35,025	EUR	111,455	24.05.2016
Emirates NBD		25,036	USD	72,936	31.05.2016 08.06.2016-
HSBC		45,679	USD	133,073	07.11.2016 20.01.2016-
Doha Bank		75,117	USD	218,830	18.11.2016 27.05.2016-
Mizuho Corporate Bank		150,273	EUR	478,185	02.09.2016
ING Bank N.V.		50,035	EUR	159,217	07.06.2016
Bank of Tokyo Mitsubishi		100,140	EUR	318,655	03.11.2016 04.01.2016-
Citibank Europe Plc		84,074	USD	244,923	15.12.2016
ING Bank A.Ş.		7,500	EUR	23,866	18.01.2016
TSKB		30,008	EUR	95,488	18.01.2016
Development Bank of Turkey		50,111	TL	50,111	11.01.2016
Akbank		40,002	EUR	127,289	18.01.2016 02.03.2016-
Syndicated loan		407,531	USD	1,187,219	28.03.2025
Syndicated loan		982,738	EUR	3,128,155	02.03.2016- 28.03.2025
(LIBOR/EURIBOR + 0.5%)				121,591	
Others					
Subordinated loan		41,738	USD	121,591	15.04.2018
Total funds borrowed		11,365,454⁽²⁾		33,109,841	

(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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15 FUNDS BORROWED AND INTERBANK MONEY MARKET DEPOSITS (continued)

The repayment of the funds borrowed was as follows during 2016:

	FX Type	Original repayment amount	Date
Citibank	USD	10,000,000	04.01.2016
European Investment Bank	USD	1,914,559	13.01.2016
ABC International Bank	EUR	41,949,153	13.01.2016
Doha Bank	USD	15,000,000	20.01.2016
European Investment Bank	USD	1,903,235	10.02.2016
ABC International Bank	EUR	22,447,183	19.02.2016
EFIL IV Loan	USD	4,148,051	01.03.2016
EFIL IV Euro Loan	EUR	1,109,760	01.03.2016
Syndicated loan	EUR	499,000,000	02.03.2016
Syndicated loan	USD	87,000,000	02.03.2016
European Investment Bank	EUR	1,470,588	04.04.2016
Subordinated Loans	USD	8,333,000	15.04.2016
Citibank	USD	24,000,000	03.05.2016
Standard Chartered Bank	USD	50,000,000	03.05.2016
ABC International Bank	EUR	33,000,000	11.05.2016
Commercial Bank of Qatar	USD	14,500,000	16.05.2016
Garanti bank International NV	USD	10,000,000	18.05.2016
Standard Chartered Bank	USD	50,000,000	23.05.2016
Doha Bank	USD	25,000,000	24.05.2016
Credit Europe Bank	EUR	35,000,000	24.05.2016
Mizuho Bank Ltd.	EUR	50,000,000	27.05.2016
Emirates NBD	USD	25,000,000	31.05.2016
ING Bank NV	EUR	50,000,000	07.06.2016
HSBC Bank	USD	15,000,000	08.06.2016
Doha Bank	USD	25,000,000	17.06.2016
European Investment Bank	EUR	1,470,588	17.06.2016
Commercial Bank of Qatar	USD	11,867,230	21.06.2016

Debt securities issued

As of 30 June 2016, the total liability amount due for bonds issued by the Bank in October 2011 amounting to USD 500 million, in April 2012 amounting to USD 500 million, in October 2012 amounting to USD 250 million, in September 2014 amounting to USD 500 million and in March 2016 amounting to USD 500 million is TL 6,561,209 with TL 6,476,236 as principal and the TL 84,973 as interest.

16 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 3rd Article of the same act; the above mentioned exemption became valid from 1 January 1988. In accordance with clause 9 of the Provisional Article 1 of Corporate Tax Law No. 5520, which states “The provision of Article 35 shall not apply to exemptions, allowances and deductions included in other laws in relation to Corporation Tax prior to the effective date of the Law No. 5520”, the exemption from Corporation Tax continues. Accordingly, current and deferred tax are not recognised in these financial statements.

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17 OTHER LIABILITIES AND PROVISIONS

The principal components of other liabilities are as follows:

	30 June 2016	31 December 2015
Financial liabilities		
Guarantees received ⁽¹⁾	1,465,490	876,404
Positive price difference on bonds issued ⁽³⁾	39,821	36,084
Tax liability	6,749	5,608
Funds	13	16
Turkish Treasury-current account-Iraq Credit	-	151
Other	105,392	61,308
Non-financial liabilities		
Vacation pay liability ⁽²⁾	11,943	11,020
Insurance technical provisions	37,145	27,825
Dividend pay liabilities	16,509	18,269
BRSA expense provision	10,654	-
Other	16,434	16,976
	1,710,150	1,053,661

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

(2) TL 923 of vacation pay liability provision is provided during 2016.

(3) In addition to the bond issuance transactions, a positive price differences have 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.

The movements for insurance technical provision are as follows:

	30 June 2016	31 December 2015
1 January	27,825	17,012
Paid claims	1,827	2,364
Increase	7,493	8,449
Total	37,145	27,825

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18 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).

Actuarial gains/losses, calculated for the year that ended 31 December 2015, as TL 102 in relation to the reserve for employee termination benefits, are shown under shareholders’ equity and as TL 3,103 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 30 June 2016 and 31 December 2015.

	30 June 2016	31 December 2015
Discount rate (%)	2.79	2.79
Rate to estimate the probability of retirement (%)	0.98	0.98

Movements in the reserve for employment termination benefits for the periods ended 30 June 2016 and 31 December 2015 are as follows:

	30 June 2016	30 June 2015
1 January	15,664	14,301
Current service cost	739	691
Interest expense	813	560
Actuarial losses	-	-
Payments during the period	-	-
Total	17,216	15,552

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19 SHARE CAPITAL

The historical paid in share capital of the Bank is TL 3,700,000 (31 December 2015: TL 2,500,000) and consists of 3.7 billion (31 December 2015: 2.5 billion) authorised shares with a nominal value of TL 1 each. With the decision made at the Bank’s Ordinary General Meeting held on 22 February 2016 and in compliance with the permissions of Banking Regulation and Supervision Agency (BRSA) dated on 2 May 2016, the Bank’s paid-in-capital has been increased from TL 2,500,000 to TL 3,700,000 and the increase of TL 1,200,000 originates from internal sources. With the resolution made by the Bank’s Board of Directors on 22 February 2016, the amount of TL 3,761 dividend payment has been made by the Bank (31 December 2015: TL 21,350).

	30 June 2016	31 December 2015
Share capital - historical cost	3,700,000	2,500,000
Adjustment to share capital	812,518	812,518
Total paid in share capital	4,512,518	3,312,518

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 2015: TL 22,743).

The legal reserves amounting to TL 328,050 (31 December 2015: TL 302,905) 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:

- a) 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.
- b) 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 30 June 2016, such gains/ (losses) recognised under equity in fair value reserves amounted to TL 10,095 (31 December 2015: TL 8,886).

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20 NET INTEREST INCOME

	30 June 2016	30 June 2015
Interest income on:		
Interest on loans and advances to customers	701,448	522,154
Interest on deposits with banks	25,221	14,760
Interest on held to maturity investments	13,757	11,758
Interest on interbank money market placements	259	2,005
Interest on trading financial assets	544	1,197
Other interest income	364	248
Total interest income	741,593	552,122
Interest expense on:		
Interest on funds borrowed	(142,399)	(81,074)
Interest on debt securities issued	(164,487)	(131,775)
Other interest expenses	(10,135)	(10,650)
Total interest expense	(317,021)	(223,499)
Net interest income	424,572	328,623

21 FOREIGN EXCHANGE GAINS AND LOSSES

	30 June 2016	30 June 2015
Foreign exchange gain	4,136,869	2,473,778
Foreign exchange losses	(4,111,342)	(2,879,217)
Net foreign exchange gains/(losses)	25,527	(405,439)

22 GAINS AND LOSSES ON FINANCIAL INSTRUMENTS CLASSIFIED AS HELD FOR TRADING

	30 June 2016	30 June 2015
Derivative trading income	179,342	429,550
Derivative trading expenses	(366,199)	(82,916)
Trading income	9	(579)
Trading expenses	(14)	(761)
	(186,862)	345,294

23 OTHER OPERATING INCOME

	30 June 2016	30 June 2015
Insurance premium income	51,959	37,901
Commission from reinsurance companies	8,673	8,317
Asset held for sale	-	-
Provision for securities	-	828
Other	4,958	5,463
Total	65,590	52,509

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24 OPERATING EXPENSES

	30 June 2016	30 June 2015
Staff costs	51,851	44,864
Premiums paid to reinsurance companies	21,402	23,907
KOSGEB fee ⁽¹⁾	4,399	4,500
BRSA contribution expense	3,989	6,056
Research expenses	4,395	3,201
Depreciation and amortisation charges	2,775	4,850
Rent expenses	2,522	2,221
Employment termination benefits and unused vacation	2,940	2,617
Taxes and duties expenses	2,090	959
Vehicle expenses	1,001	939
Other	20,427	11,487
Total	117,791	105,601

⁽¹⁾ 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.

25 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 30 June 2016, there are 146 legal proceedings outstanding against the Bank. As of 30 June 2016, 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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25 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitments under derivative instruments:

The breakdown of swap transactions at 30 June 2016 and 31 December 2015 is as follows:

	Currency	30 June 2016		31 December 2015	
		Foreign currency amount	TL	Foreign currency amount	TL
Transaction type					
Interest rate swap purchases	USD	1,725,000,173	4,979,213	1,215,000,000	3,539,538
Foreign currency swap purchases	USD	566,735,146	1,635,881	41,423,177	120,674
	TL	-	-	102,595,000	102,595
Foreign currency forward purchases	USD	1,395,443,963	4,027,949	773,364,342	2,252,965
	TL	41,141,000	41,141	26,764,000	26,764
Cross currency swaps purchases	USD	313,197,298	904,044	313,197,515	912,407
	JPY	23,799,985,767	668,851	-	-
Total purchases			12,257,079	6,954,943	
Interest rate swap sales	USD	1,725,000,173	4,979,213	1,215,000,000	3,539,538
Foreign currency swap sales	EUR	495,999,751	1,591,068	61,999,937	197,290
	GBP	3,000,077	11,655	4,650,414	20,087
	JPY	52,983,667	1,489	188,502,232	4,561
Foreign currency forward sales	TL	4,287,917,000	4,287,917	2,343,301,000	2,343,301
	GBP	-	-	650,090	2,808
	JPY	-	-	16,077,038	389
	USD	13,399,965	38,679	7,570,026	22,053
Cross currency swaps sales	TL	36,220,000	36,220	36,220,000	36,220
	EUR	458,694,744	1,471,401	255,672,983	813,577
Total sales			12,417,642	6,979,824	
Total			24,674,721	13,934,767	

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25 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Maturity analysis of swap and forward transactions are as follows:

	30 June 2016				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swap purchases	-	1,775,198	3,204,015	-	4,979,213
Foreign currency swap purchases	1,635,881	-	-	-	1,635,881
Forward foreign currency purchases	1,351,685	2,717,405	-	-	4,069,090
Cross currency swaps purchases	-	-	1,072,961	499,934	1,572,895
Total purchases	2,987,566	4,492,603	4,276,976	499,934	12,257,079
Interest rate swap sales	-	1,775,198	3,204,015	-	4,979,213
Foreign currency swap sales	1,604,212	-	-	-	1,604,212
Forward foreign currency sales	1,433,804	2,892,792	-	-	4,326,596
Cross currency swaps sales	-	-	1,000,888	506,733	1,507,621
Total sales	3,038,016	4,667,990	4,204,903	506,733	12,417,642
	31 December 2015				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swap purchases	43,698	1,718,788	1,777,052	-	3,539,538
Foreign currency swap purchases	220,972	2,297	-	-	223,269
Forward foreign currency purchases	949,290	1,330,439	-	-	2,279,729
Cross currency swaps purchases	-	-	407,849	504,558	912,407
Total purchases	1,213,960	3,051,524	2,184,901	504,558	6,954,943
Interest rate swap sales	43,698	1,718,788	1,777,052	-	3,539,538
Foreign currency swap sales	219,704	2,234	-	-	221,938
Forward foreign currency sales	947,457	1,421,094	-	-	2,368,551
Cross currency swaps sales	-	-	347,124	502,673	849,797
Total sales	1,210,859	3,142,116	2,124,176	502,673	6,979,824

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

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25 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 30 June 2016 and 31 December 2015:

	30 June 2016	31 December 2015
Financial guarantees		
Other guarantees		
-Foreign currency (Note 3)	2,908,875	2,754,481
Total financial guarantees	2,908,875	2,754,481

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

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26 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:

30 June 2016	Corporate banking	Investment banking	Unallocated	Total
Segment revenue	785,423	39,781	25,527	850,731
Segment expenses	(157,944)	(359,464)	(117,791)	(635,199)
Net profit	627,479	(319,683)	(92,264)	215,532
Interest income	701,812	39,781	-	741,593
Interest expense	(152,534)	(164,487)	-	(317,021)
Depreciation and amortisation	-	-	(2,775)	(2,775)
Impairment charges on loans	-	(5,410)	-	(5,410)
30 June 2016				
Total segment assets	49,327,537	2,496,845	1,157,677	52,982,059
Segment liabilities	39,343,786	6,917,325	1,727,366	47,988,477
Equity	-	-	4,993,582	4,993,582
Total liabilities and equity	39,343,786	6,917,325	6,720,948	52,982,059
30 June 2015	Corporate banking	Investment banking	Unallocated	Total
Segment revenue	587,991	375,662	-	963,653
Segment expenses	(91,230)	(147,098)	(504,836)	(743,164)
Net profit	496,761	228,564	(504,836)	220,489
Interest income	522,402	29,720	-	552,122
Interest expense	(81,090)	(142,409)	-	(223,499)
Depreciation and amortisation	-	-	(4,850)	(4,850)
Impairment charges on loans	(3,936)	-	-	(3,936)
31 December 2015				
Total segment assets	43,053,740	559,091	679,519	44,292,350
Segment liabilities	33,109,841	5,288,853	1,112,148	39,510,842
Equity	-	-	4,781,508	4,781,508
Total liabilities and equity	33,109,841	5,288,853	5,893,656	44,292,350

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26 SEGMENT ANALYSIS (continued)

Reconciliation of segment results of operations to:

30 June 2016	Corporate banking	Investment banking	Unallocated	Total
Interest income	701,812	39,781	-	741,593
Fee and commissions income	18,021	-	-	18,021
Foreign exchange gain	-	-	25,527	25,527
Gains on financial instruments classified as held for trading, net	-	-	-	-
Other operating income	65,590	-	-	65,590
Total segment revenue	785,423	39,781	25,527	850,731

30 June 2016	Corporate banking	Investment Banking	Unallocated	Total
Interest expense	(152,534)	(164,487)	-	(317,021)
Fee and commissions expense	-	(8,115)	-	(8,115)
Impairment charges on loans	(5,410)	-	-	(5,410)
Losses on financial instruments classified as held for trading, net	-	(186,862)	-	(186,862)
Foreign exchange losses	-	-	-	-
Other operating expenses	-	-	(117,791)	(117,791)
Total segment expense	(157,944)	(359,464)	(117,791)	(635,199)

30 June 2015	Corporate banking	Investment banking	Unallocated	Total
Interest income	522,402	29,720	-	552,122
Fee and commissions income	13,728	-	-	13,728
Foreign exchange gain	-	-	-	-
Gains on financial instruments classified as held for trading, net	-	345,294	-	345,294
Other operating income	52,509	-	-	52,509
Total segment revenue	588,639	375,014	-	963,653

30 June 2015	Corporate banking	Investment Banking	Unallocated	Total
Interest expense	(81,090)	(142,409)	-	(223,499)
Fee and commissions expense	-	(4,689)	-	(4,689)
Impairment charges on loans	(3,936)	-	-	(3,936)
Foreign exchange losses	-	-	(405,439)	(405,439)
Losses on financial instruments classified as held for trading, net	-	-	-	-
Other operating expense	-	-	(105,601)	(105,601)
Total segment expense	(85,026)	(147,098)	(511,040)	(743,164)

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27 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:

	30 June 2016	31 December 2015
Due from banks:		
- Other related parties ⁽¹⁾	213,522	426,574
Loans and advances to customers:		
- Other related parties ⁽²⁾	1,691,578	1,280,269
Trading securities:		
- Shareholder ⁽³⁾	11,484	10,593
Investment securities (“Held to maturity”)		
- Shareholder ⁽⁴⁾	281,707	255,968
Funds borrowed		
- Other related parties ⁽⁵⁾	26,238,539	22,955,874

⁽¹⁾ Average interest rate for due from banks is 4.88% (2015: 4.91%)

⁽²⁾ Average interest rate for loans and advances to customers is 4.69% (2015: 5.28%)

⁽³⁾ Average interest rate for trading securities is 6.83% (2015: 6.97%)

⁽⁴⁾ Average interest rate for investment securities is 6.94% (2015: 4.77%)

⁽⁵⁾ Average interest rate for funds borrowed is 0.99% (2015: 0.98%)

(b) Transactions with related parties:

	30 June 2016	30 June 2015
Interest income on investment and trading securities:		
- Shareholder	14,301	12,955
Interest income on loans and advances to customers:		
- Other related parties	27,439	25,641
Interest expense on funds borrowed:		
- Other related parties	55,093	37,559
Operating expenses (taxes paid)		
-Other related parties	2,090	959

(c) Remuneration of key management personnel:

	30 June 2016	30 June 2015
Salaries and other short-term employee benefits	1,268	1,251
Post-employment benefits	-	-

28 EVENTS AFTER THE REPORTING PERIOD

None.