



**Türkiye İhracat Kredi  
Bankası Anonim Şirketi**

**Financial Statements  
As At and For The Year Ended  
31 December 2013  
With Independent Auditors' Report Thereon**

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**Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik  
Anonim Şirketi**

**13 February 2014**

*This report contains the "Independent Auditors' Report on Financial Statements" comprising 1 page and; the "Financial statements and their explanatory notes" comprising 68 pages.*

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## Independent Auditors' Report

To the Board of Directors of Türkiye İhracat Kredi Bankası AŞ

### *Introduction*

We have audited the accompanying financial statements of Türkiye İhracat Kredi Bankası AŞ (the "Bank"), which comprise the statement of financial position as at 31 December 2013, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

### *Other matter*

The financial statements of the Bank as at and for the year ended 31 December 2012 was audited by another auditor who expressed an unmodified opinion on those statements on 15 February 2013.

*KPMG Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.*

13 February 2014  
Istanbul, Turkey

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2013**

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

	<i>Notes</i>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>ASSETS</b>			
Cash and due from banks	6	1,019,385	1,215,551
Trading securities	7	113,270	483,571
Derivative financial instruments	8	58,776	27,781
Derivative assets held for risk management	4	13,803	-
Loans and advances to customers	9	22,795,293	13,163,158
Investment securities			
- Available-for-sale	10	17,351	19,220
- Held-to-maturity	10	238,371	300,349
Property and equipment	11	18,871	19,375
Intangible assets	12	538	460
Other assets	13	284,861	42,221
<b>Total assets</b>		<b>24,560,519</b>	<b>15,271,686</b>
<b>LIABILITIES</b>			
Funds borrowed	14	17,286,700	9,108,492
Debt securities in issue	14	2,604,828	2,238,610
Interbank money market deposits	14	163,945	10,006
Other liabilities and provisions	16	504,702	196,915
Derivative financial instruments	8	46,211	29,058
Derivative liabilities held for risk management	4	39,272	-
Retirement benefit obligations	17	12,193	12,440
<b>Total liabilities</b>		<b>20,657,851</b>	<b>11,595,521</b>
<b>EQUITY</b>			
	18		
- Share capital		2,200,000	2,000,000
- Adjustment to share capital		812,518	812,518
<b>Total paid in share capital</b>		<b>3,012,518</b>	<b>2,812,518</b>
Legal reserves		268,093	256,388
Other reserve		22,743	22,743
Fair value reserves		8,221	10,282
Retained earnings		591,093	574,234
<b>Total equity</b>		<b>3,902,668</b>	<b>3,676,165</b>
<b>Total liabilities and equity</b>		<b>24,560,519</b>	<b>15,271,686</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

	<i>Notes</i>	<b>1 January- 31 December 2013</b>	<b>1 January- 31 December 2012</b>
Interest income	20	603,088	573,737
Interest expense	20	(218,900)	(178,037)
<b>Net interest income</b>		<b>384,188</b>	<b>395,700</b>
Fee and commission income		4,159	4,968
Fee and commission expense		(5,333)	(6,150)
<b>Net fee and commission income</b>		<b>(1,174)</b>	<b>(1,182)</b>
Impairment losses on loans and advances, net	9	(5,122)	(60,787)
Foreign exchange gain / (losses), net	20	(220,466)	(76,266)
Gains/(losses) on financial instruments classified as held for trading, net	21	148,178	17,285
Other operating income	21	86,840	58,270
<b>Operating profit before operating expenses</b>		<b>392,444</b>	<b>333,020</b>
Operating expenses	23	(146,515)	(111,831)
<b>Net profit for the year</b>		<b>245,929</b>	<b>221,189</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

	<i>Notes</i>	<b>1 January- 31 December 2013</b>	<b>1 January- 31 December 2012</b>
<b>Net profit for the period</b>		<b>245,929</b>	<b>221,189</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Net change in remeasurements of defined benefit liability	<i>17</i>	(404)	-
<i>Items that are or may be reclassified to profit or loss</i>			
Net change in fair values of available-for-sale financial assets		(2,029)	6,714
Amortisation of the fair value gains of held to maturity investments previously classified as available-for-sale financial assets		(32)	(62)
<b>Total comprehensive income for the period</b>		<b>243,464</b>	<b>227,841</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

	<i>Notes</i>	<b>1 January- 31 December 2013</b>	<b>1 January- 31 December 2012</b>
<b>Cash flows from operating activities:</b>			
Net profit for the year		245,929	221,189
<b>Adjustments for:</b>			
Depreciation and amortisation	<i>11,12</i>	4,132	933
Provision for loan losses	<i>9</i>	5,122	60,787
Provision for employment termination benefits	<i>17</i>	1,160	880
Provision for unused vacation	<i>16</i>	29	3,263
Provision for impairment on investment		(16,669)	(6,146)
Net gain on sale of asset held for sale		(18,772)	-
Interest income, net		(384,188)	(395,700)
Interest income received		600,464	562,061
Interest expense paid		(195,951)	(164,277)
Other non-cash items		404,422	3,862
<b>Operating profit before changes in operating assets and liabilities</b>		<b>645,678</b>	<b>286,852</b>
Net decrease in due from banks		934	456
Net increase in loans and advances to customers	<i>9</i>	(9,676,712)	(5,165,396)
Proceeds from borrowings		34,493,285	30,368,526
Repayments of borrowings		(26,247,489)	(25,942,989)
Net decrease/increase in trading securities		353,632	(140,636)
Net increase/decrease in other assets		(321,142)	(14,256)
Net decrease/increase in other liabilities		287,735	80,930
<b>Net cash used in operating activities</b>		<b>(464,079)</b>	<b>(526,513)</b>
<b>Cash flows from/(used in) investing activities:</b>			
Acquisition of property and equipment	<i>11</i>	(6,394)	(12,061)
Proceeds from property and equipment	<i>11</i>	10,225	1,769
Purchases of available-for-sale financial assets		-	2,453
Purchases of investment securities		(100,026)	(92,167)
Redemption of investment securities		161,732	287,169
Purchases of intangible assets	<i>12</i>	(347)	(1,441)
<b>Net cash from investing activities</b>		<b>65,190</b>	<b>185,722</b>
<b>Cash flows from/(used in) financing activities:</b>			
Proceeds from interbank money market deposit		153,843	(147,982)
Proceeds from issuance of debt securities		(30,500)	1,278,191
Dividends paid		(16,961)	(199,735)
<b>Net cash from financing activities</b>		<b>106,382</b>	<b>930,474</b>
<b>Effects of exchange-rate changes on cash and cash equivalents</b>		<b>97,275</b>	<b>(42,039)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(195,232)</b>	<b>547,644</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,214,557</b>	<b>666,913</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>1,019,325</b>	<b>1,214,557</b>

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

	Share capital							Total equity	
	Notes	Share capital	Adjustment to share capital	Total paid-in capital	Legal reserves	Other reserve	Fair value reserves		Retained earnings
Balance at 1 January 2012	/8	2,000,000	812,518	2,812,518	256,388	22,743	3,630	552,781	3,648,060
Profit for the year		-	-	-	-	-	-	221,189	221,189
Other comprehensive income for the year		-	-	-	-	-	6,652	-	6,652
<b>Total comprehensive income</b>		-	-	-	-	-	6,652	221,189	227,841
Dividends paid		-	-	-	-	-	-	(199,736)	(199,736)
<b>Balance at 31 December 2012</b>		<b>2,000,000</b>	<b>812,518</b>	<b>2,812,518</b>	<b>256,388</b>	<b>22,743</b>	<b>10,282</b>	<b>574,234</b>	<b>3,676,165</b>
Balance at 1 January 2013		2,000,000	812,518	2,812,518	256,388	22,743	10,282	574,234	3,676,165
Profit for the year		-	-	-	-	-	-	245,929	245,929
Other comprehensive income for the year		-	-	-	-	-	(2,061)	(404)	(2,465)
<b>Total comprehensive income</b>		-	-	-	-	-	(2,061)	245,525	243,464
Capital increase		200,000	-	200,000	-	-	-	(200,000)	-
Dividends paid		-	-	-	-	-	-	(16,961)	(16,961)
Transfers to legal reserves		-	-	-	11,705	-	-	(11,705)	-
<b>Balance at 31 December 2013</b>	<b>/8</b>	<b>2,200,000</b>	<b>812,518</b>	<b>3,012,518</b>	<b>268,093</b>	<b>22,743</b>	<b>8,221</b>	<b>591,093</b>	<b>3,902,668</b>

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



# **TÜRKİYE İHRACAT KREDİ BANKASI AŞ**

## **NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**

*(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/Turkey. As of 31 December 2013, the Bank has 2 branches in Ankara and Izmir and 7 liaison offices in Bursa, Adana, Trabzon, Denizli, Kayseri, Gaziantep and Konya. As of 31 December 2013, the Bank employed 483 people (31 December 2012: 453 people).

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

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

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

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**  
(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)

**2 Basis of preparation**

**(a) Statement of compliance**

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

The Bank maintain its books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey, the Turkish Commercial Code, and the Turkish Tax Legislation.

The financial statements as at 31 December 2013 of the Bank are authorised for issue by the management on 13 February 2014. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

**(b) Basis of measurement**

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

**(c) Functional currency and presentation currency**

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

**(d) Accounting in hyperinflationary countries**

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**

*(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

**2.6. Changes in accounting policies**

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

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 financial statements (2011),
- IFRS 12 Disclosure of interests in other entities,
- IFRS 13 Fair value measurement,
- Disclosures – Offsetting financial assets and financial liabilities (Amendments to IFRS 7),
- Presentation of Items of other comprehensive income (Amendments to IAS 1),
- IAS 19 Employee benefits (2011).

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**

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

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

**(a) Fair value measurement**

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value, prospectively. The change had no significant impact on the measurements of the Bank's assets and liabilities, but the Bank has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Bank has provided the relevant comparative disclosures under those standards.

**(b) Offsetting financial assets and financial liabilities**

As a result of the amendments to IFRS 7, the Bank has expanded disclosures about offsetting financial assets and financial liabilities.

**(c) Presentation of items of OCI**

As a result of the amendments to IAS 1, the Bank has modified the presentation of items of OCI (other comprehensive income) in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

**(d) Post-employment defined benefit plans As a result of IAS 19 (2011)**

The Bank has changed its accounting policy with respect to the basis for determining the income or expense related to its defined benefit plans. Under IAS 19 (2011), the Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**

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

**3 Significant accounting policies**

Except the changes disclosed in Note 2.6, 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
31 December 2013	2.9143	2.1164
31 December 2012	2.3528	1.7831

*ii) Foreign operations*

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

**3.2 Interest**

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

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and OCI include:

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**  
*(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 recognized in the financial statements on accrual basis over the period of related policy.

*Reinsurance commissions*

Reinsurance commission income received in relation to ceded premiums is recognized 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.

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**  
*(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)*

**3 Significant accounting policies (continued)**

**3.6 Lease payments made**

Payments made under operating leases are recognised in profit or loss and other comprehensive income statement 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.

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

**TÜRKİYE İHRACAT KREDİ BANKASI AŞ**  
**NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013**  
*(Amounts expressed in thousands of Turkish Lira ("TL"), unless otherwise indicated)*

**3 Significant accounting policies (continued)**

**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.

*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 the statement of income.

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.



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**3 Significant accounting policies (continued)**

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

*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.

*Fair value measurement*

*Policy applicable from 1 January 2013*

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.

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**3 Significant accounting policies (continued)**

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

*Fair value measurement (continued)*

*Policy applicable before 1 January 2013*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

*Derivative financial instruments*

The Bank enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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**3 Significant accounting policies (continued)**

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

*Identification and measurement of impairment*

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

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

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

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

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

*Repurchase and resale transactions*

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

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

**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.

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**3 Significant accounting policies (continued)**

**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. All changes in fair value are recognised as part of net trading income in profit or loss. 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.

**3.11 Loans and advances**

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent are categorized as loans originated by the Bank and are carried at amortized 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 year.

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**3 Significant accounting policies (continued)**

**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 the statement of income.

*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 the statement of income.

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:

	<b>Years</b>
Buildings	50
Vehicles, machinery and equipment	4 - 16 years

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

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

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**3 Significant accounting policies (continued)**

**3.14 Intangible assets**

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

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

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

**3.15 Assets held for sale**

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

**3.16 Impairment of non-financial assets**

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

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

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

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

**3.17 Funds borrowed**

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

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**3 Significant accounting policies (continued)**

**3.18 Provisions**

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

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

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

**3.19 Employee benefits**

*Reserve for employee severance indemnity*

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

*Short-term employee benefits*

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

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank does not have any internally set defined contribution plan.

**3.20 Events after the reporting period**

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



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**3 Significant accounting policies (continued)**

**3.21 New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these financial statements. None of these will have an effect on the financial information of the Bank, with the exception of:

*IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

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**3 Significant accounting policies (continued)**

**3.21 New standards and interpretations not yet adopted (continued)**

*IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9) (continued)*

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

The Bank has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

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

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted. The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 32.

*Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)*

The amendments to IAS 36 reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 36.

*Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)*

The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted. The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 39.

*IFRIC 21 Levies*

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Bank's financial statements.

# TÜRKİYE İHRACAT KREDİ BANKASI AŞ

## NOTES TO THE FINANCIAL INFORMATION AS AT 31 DECEMBER 2013

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### 4 FINANCIAL RISK MANAGEMENT

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

As of 31 December 2013, the loan portfolio of the Bank constitutes 93% (31 December 2012: 86%) of total assets. In short, medium and long term lending (except for fund sourced and country loans), the Bank is taking the risk of the Turkish banking system, however medium-to-long term country loans are under the political risk guarantee of the Turkish Treasury.

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

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

#### (b) Credit risk

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

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

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

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

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

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

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

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

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

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

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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 the income statement, 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 Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. 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 classification of the loan portfolio of the Bank under the following categories is as follows:

	31 December 2013		31 December 2012	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Neither past due nor impaired	22,907,998	5,480	13,284,480	2,619
Past due but not impaired	10,797	-	5,041	-
Individually impaired	117,478	-	112,383	-
<b>Total loans and advances to customers</b>	<b>23,036,273</b>	<b>5,480</b>	<b>13,401,904</b>	<b>2,619</b>
Allowance for impairment losses	(246,460)	-	(241,365)	-
<b>Net loans and advances to customers</b>	<b>22,789,813</b>	<b>5,480</b>	<b>13,160,539</b>	<b>2,619</b>

As of 31 December 2013 and 31 December 2012, loans and advances that are past due but not impaired are as follows:

	31 December 2013	31 December 2012
Past due up to 30 days	-	2,845
Past due 30-60 days	-	-
Past due 60-90 days	288	-
Past due 90 days-one year	311	-
Past due over one year	10,198	2,237
<b>Total loans and advances that are past due but not impaired</b>	<b>10,797</b>	<b>5,082</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

	31 December 2013		31 December 2012	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Standard loans and advances	22,879,108	5,480	13,233,076	2,619
Loans and advances under close monitoring <sup>(1)</sup>	39,687	-	56,445	-
Impaired loans and advances	117,478	-	112,383	-
<b>Total loans and advances to customers</b>	<b>23,036,273</b>	<b>5,480</b>	<b>13,401,904</b>	<b>2,619</b>
Allowance for impairment losses	(246,460)	-	(241,365)	-
<b>Net loans and advances to customers</b>	<b>22,789,813</b>	<b>5,480</b>	<b>13,160,539</b>	<b>2,619</b>

<sup>(1)</sup> As of 31 December 2013, loans and advances under close monitoring includes loans amounting to TL 39,687 (31 December 2012: TL 53,600) that were not past due but had been extended to customers whose other loans are under close monitoring.

As of 31 December 2013 and 31 December 2012, the fair value of collaterals held for total loans and advances are as follows:

	31 December 2013		31 December 2012	
	Corporate loans	Personnel loans	Corporate loans	Personnel loans
Loans guaranteed by other banks	17,983,904	-	9,707,347	-
Loans guaranteed by Turkish Treasury	871	-	2,237	-
Loans guaranteed by a third party	-	5,480	-	2,619
<b>Total</b>	<b>17,984,775</b>	<b>5,480</b>	<b>9,709,502</b>	<b>2,619</b>
Unsecured exposures <sup>(1)</sup>	5,051,497	-	3,692,402	-
<b>Total loans and advances to customers</b>	<b>23,036,273</b>	<b>5,480</b>	<b>13,401,904</b>	<b>2,619</b>

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

As of 31 December 2013, the Bank does not have repossessed collateral (31 December 2012: None).

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**4 FINANCIAL RISK MANAGEMENT (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 financial analysis 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 financial analysis Bank of the banks and other financial institutions, the final risk Banks are determined by considering qualitative factors such as shareholding structure, Bank companies, credit ratings from international credit rating institutions, quality of management and also information obtained from media.

As of 31 December 2013, loans granted by the Bank to banks and other financial institutions amount to TL 4,934,019 (31 December 2012: TL 3,727,755). As of 31 December 2013 and 31 December 2012, the concentration level of the loans and advances to banks and other financial institutions which are neither past due nor impaired in accordance with the defined financial analysis Banks of the Bank are as follows:

		<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>Rating class</b>	<b>Concentration level (%)</b>	<b>Concentration level (%)</b>
Low	1-2	69	59
Medium	3	18	23
High	4	13	18

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**4 FINANCIAL RISK MANAGEMENT (continued)**

*The risk assessment of the companies:*

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

As of 31 December 2013 and 31 December 2012, the analysis of credit limits for top 60 corporate customers constituting approximately 63% and 56%, respectively of total loans to corporate customers amounting to TL 12,889,936 (31 December 2012: TL 5,201,324) and whose loans are neither past due nor impaired at 31 December 2013 and 31 December 2012 is as follows;

Credit limits (TL)	31 December 2013	31 December 2012
	Concentration level (%)	Concentration level (%)
0-20,000	-	-
20,000-40,000	-	-
40,000-60,000	-	16
Over 60,000	100	84
<b>Total</b>	<b>100</b>	<b>100</b>

As of 31 December 2013 and 31 December 2012, the classification and allowance percentages of the loans and advances of the Bank are as follows:

	31 December 2013		31 December 2012	
	Loans and advances (%)	Allowance for loan losses (%)	Loans and advances (%)	Allowance for loan losses (%)
Standard loans and advances	99.32	0.55	98.75	0.97
Loans and advances under close monitoring	0.17	0.01	0.42	0.04
Impaired loans and advances	0.51	0.51	0.83	0.83
<b>Total</b>	<b>100.00</b>	<b>1.07</b>	<b>100.00</b>	<b>1.84</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

The Bank's maximum exposure to credit risk as of 31 December 2013 and 31 December 2012:

	31 December 2013	31 December 2012
<b>Credit risk exposures relating to on-balance sheet assets:</b>		
Due from banks	1,019,365	1,215,538
Loans and advances to		
- Domestic banks and other financial institutions	4,934,019	3,727,753
- Foreign banks and other financial institutions	202,620	182,011
- Corporate customers other than banks and financial institutions and personnel	17,658,653	9,253,394
Investment securities		
- Available-for-sale	17,351	19,220
-Held-to-maturity	238,371	300,349
Other assets	318,073	62,056
<b>Credit risk exposures relating to off-balance sheet items:</b>		
Financial guarantees	1,219,632	682,148
<b>Total</b>	<b>25,608,084</b>	<b>15,442,469</b>

There are no financial assets that are past due but not impaired and there are no past due or impaired financial assets at 31 December 2013 and 31 December 2012, other than loans and advances explained above. As of 31 December 2013 and 31 December 2012, 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 90% of due from banks account at 31 December 2013 and 70% of due from banks account at 31 December 2012;

		31 December 2013	31 December 2012
	Rating class	Concentration level (%)	Concentration level (%)
Low	1-2	69	65
Medium	3	9	32
High	4	22	3



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**4 FINANCIAL RISK MANAGEMENT (continued)**

As of 31 December 2013 and 31 December 2012, the geographical distribution of the on-balance sheet assets exposed to credit risk:

	Turkey	EU countries	OECD countries <sup>(1)</sup>	USA	Other countries	Total
Cash and due from banks	917,529	3,295	38,539	12,171	47,851	1,019,365
Loans and advances to						
- Domestic banks and other financial institutions	4,934,020	-	-	-	-	4,934,020
- Foreign banks and other financial institutions		-	-	-	202,620	202,620
- Corporate customers and personnel	17,658,653	-	-	-	-	17,658,653
Trading securities	113,270					113,270
Derivatives instruments		58,776				58,776
Investment securities						
- Available-for-sale	17,351	-	-	-	-	17,351
- Held-to-maturity	238,371	-	-	-	-	238,371
Other assets	318,073	-	-	-	-	318,073
<b>As of 31 December 2013</b>	<b>24,197,247</b>	<b>62,071</b>	<b>38,539</b>	<b>12,171</b>	<b>250,471</b>	<b>24,560,499</b>
<b>As of 31 December 2012</b>	<b>14,707,951</b>	<b>208,641</b>	<b>110,816</b>	<b>198</b>	<b>182,011</b>	<b>15,209,617</b>

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

**(c) Market risk**

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

**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).

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**4 FINANCIAL RISK MANAGEMENT** (continued)

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

The market risk table of calculated market risk at month ends (for one day) for the years ended 31 December 2013 and 31 December 2012, as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in Official Gazette no. 26333 dated 1 November 2006 showing the maximum and minimum total amount subject to market risk among the twelve months of calculated market risk for each year and the average of the total amount subject to market risk for each month end for 12 months are as follows:

	31 December 2013			31 December 2012		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	32,870	66,972	19,954	37,378	69,709	15,751
Equity share risk	-	-	-	-	-	-
Currency risk	74,075	102,685	55,333	47,260	58,785	36,642
Option risk	30	166	16	14	148	18
Counterparty credit risk	2,322	2,645	1,934	887	2,787	2,511
Total capital to be employed for market risk (A)	109,297	172,468	77,237	85,539	131,429	54,922
<b>Total amount subject to market risk (A*12.5)</b>	<b>1,366,213</b>	<b>2,155,850</b>	<b>965,463</b>	<b>1,069,238</b>	<b>1,642,863</b>	<b>686,525</b>

**(d) Currency risk**

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

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

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

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

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

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk as monitored by management at 31 December 2013 and 31 December 2012.

	31 December 2013				Total
	USD	EUR	Other	TL	
Cash and due from banks	566,749	254,163	3,015	195,458	1,019,385
Trading securities	64,081	-	-	49,189	113,270
Derivative financial instruments	10,949	-	-	47,827	58,776
Derivative assets held for risk management	13,803	-	-	-	13,803
Loans and advances to customers	11,753,482	5,824,752	19,263	5,197,796	22,795,293
Investment securities					
- Available-for-sale	-	-	-	17,351	17,351
- Held-to-maturity	45,053	-	-	193,318	238,371
Property and equipment and intangible assets	-	-	-	19,409	19,409
Other assets	32,861	187,512	29	64,459	284,861
<b>Total assets</b>	<b>12,486,978</b>	<b>6,266,427</b>	<b>22,307</b>	<b>5,784,807</b>	<b>24,560,519</b>
Funds borrowed	11,401,727	5,877,433	7,540	-	17,286,700
Debt securities in issue	2,604,828	-	-	-	2,604,828
Interbank money market deposits	-	-	-	163,945	163,945
Derivative financial instruments	44,954	-	-	1,257	46,211
Derivative liabilities held for risk management	39,272	-	-	-	39,272
Other liabilities	357,540	325	43	146,794	504,702
Reserve for employment termination	-	-	-	-	-
Benefits	-	-	-	12,193	12,193
Equity	35	-	-	3,902,633	3,902,668
<b>Total liabilities and equity</b>	<b>14,448,356</b>	<b>5,877,758</b>	<b>7,583</b>	<b>4,226,822</b>	<b>24,560,519</b>
<b>Net balance sheet position</b>	<b>(1,961,378)</b>	<b>388,669</b>	<b>14,724</b>	<b>1,557,984</b>	<b>-</b>
<b>Off balance sheet derivative instruments net notional position</b>	<b>1,901,331</b>	<b>(293,481)</b>	<b>-</b>	<b>(1,643,137)</b>	<b>(35,287)</b>

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

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

	31 December 2012				Total
	USD	EUR	Other	TL	
Cash and due from banks	629,551	64,496	5,998	515,506	1,215,551
Trading securities	8,189	-	-	475,382	483,571
Derivative financial instruments	26,181	-	-	1,600	27,781
Loans and advances to customers	7,636,021	2,512,986	11,902	3,002,249	13,163,158
Investment securities					
- Available-for-sale	-	-	-	19,220	19,220
- Held-to-maturity	41,951	-	-	258,398	300,349
Property and equipment and intangible assets	-	-	-	19,835	19,835
Other assets	6,250	8,303	17	27,651	42,221
<b>Total assets</b>	<b>8,348,143</b>	<b>2,585,785</b>	<b>17,917</b>	<b>4,319,841</b>	<b>15,271,686</b>
Funds borrowed	6,563,654	2,544,531	307	-	9,108,492
Debt securities in issue	2,238,610	-	-	-	2,238,610
Interbank money market deposits	-	-	-	10,006	10,006
Derivative financial instruments	17,912	806	-	10,340	29,058
Other liabilities	98,133	41,981	-	56,801	196,915
Reserve for employment termination benefits	-	-	-	12,440	12,440
Equity	67	-	-	3,676,098	3,676,165
<b>Total liabilities and equity</b>	<b>8,918,376</b>	<b>2,587,318</b>	<b>307</b>	<b>3,765,685</b>	<b>15,271,686</b>
<b>Net balance sheet position</b>	<b>(570,233)</b>	<b>(1,533)</b>	<b>17,610</b>	<b>554,156</b>	<b>-</b>
<b>Off balance sheet derivative instruments net notional position</b>	<b>579,286</b>	<b>(8,950)</b>	<b>-</b>	<b>(599,330)</b>	<b>(28,994)</b>

At 31 December 2012, assets and liabilities denominated in foreign currency were translated into Turkish lira using foreign exchange rate of TL 1.7831 = US Dollar 1 ("USD") and TL 2.3528= EUR 1.

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

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

As of 31 December 2013 and 31 December 2012, the effect of the devaluation of TL by 10% against other currencies mentioned below, on net profit and equity of the Bank, are presented in the table below. The analysis covers all foreign currency denominated assets and liabilities. The other variables, especially interest rates are assumed to be fixed.

	31 December 2013		31 December 2012	
	Effect on net profit	Effect on equity <sup>(1)</sup>	Effect on net profit	Effect on equity <sup>(1)</sup>
USD	(6,005)	(6,005)	905	905
EUR	9,519	9,519	(1,048)	(1,048)
Other currencies	1,472	1,472	1,761	1,761
<b>Total</b>	<b>4,987</b>	<b>4,987</b>	<b>(1,618)</b>	<b>(1,618)</b>

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

As of 31 December 2013 and 31 December 2012, 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 analyzing 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 analyzing 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 analyzing the weighted average days to maturity of TL and foreign currency-denominated (for each currency and in total in terms of their USD equivalents) assets and liabilities.

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

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

As of 31 December 2013 and 31 December 2012, the tables below summarise the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates;

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

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

	31 December 2012					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	1,183,481	-	-	-	32,070	1,215,551
Trading securities	284,045	191,340	-	8,186	-	483,571
Derivative financial instruments	1,600	26,181	-	-	-	27,781
Loans and advances to customers	7,930,059	5,190,780	42,319	-	-	13,163,158
Investment securities						
- Available-for-sale	-	-	-	-	19,220	19,220
- Held-to-maturity	189,902	72,317	38,130	-	-	300,349
Property and equipment and intangible assets	-	-	-	-	19,835	19,835
Other assets	-	-	-	-	42,221	42,221
<b>Total assets</b>	<b>9,589,087</b>	<b>5,480,618</b>	<b>80,449</b>	<b>8,186</b>	<b>113,346</b>	<b>15,271,686</b>
Funds borrowed	6,809,370	2,299,122	-	-	-	9,108,492
Debt securities in issue	-	1,935,136	-	303,474	-	2,238,610
Interbank money market deposit	10,006	-	-	-	-	10,006
Derivative financial instruments	13,885	15,173	-	-	-	29,058
Other liabilities	3,889	10,666	506	-	181,854	196,915
Reserve for employment termination benefits	-	-	-	-	12,440	12,440
<b>Total liabilities</b>	<b>6,837,150</b>	<b>4,260,097</b>	<b>506</b>	<b>303,474</b>	<b>194,294</b>	<b>11,595,521</b>
<b>Net repricing gap</b>	<b>2,751,937</b>	<b>1,220,521</b>	<b>79,943</b>	<b>(295,288)</b>	<b>(80,948)</b>	<b>3,676,165</b>

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

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

The tables below summaries the range for effective average interest rates by major currencies for monetary financial instruments of the Bank at 31 December 2013 and 31 December 2012:

	31 December 2013			
	USD (%)	EUR (%)	JPY (%)	TL (%)
<b>Assets</b>				
Cash and due from banks				
-Time deposits in foreign banks	0.48	0.32	-	-
-Time deposits in domestic banks	-	-	-	6.20
-Interbank money market placements	-	-	-	6.26
Trading securities	4.54	-	-	6.86
Loans and advances to customers	1.85	2.14	2.45	6.39
Investment securities				
-Held-to-maturity	6.79	-	-	7.40
<b>Liabilities</b>				
Funds borrowed	0.72	1.02	-	-
Debt securities in issue	4.14	-	-	-
Interbank money market deposits	-	-	-	-

	31 December 2012			
	USD (%)	EUR (%)	JPY (%)	TL (%)
<b>Assets</b>				
Cash and due from banks				
-Time deposits in foreign banks	0.31	0.40	-	-
-Time deposits in domestic banks	-	-	-	5.54
-Interbank money market placements	-	-	-	6.13
Trading securities	4.43	-	-	7.73
Loans and advances to customers	2.06	2.63	2.51	8.19
Investment securities				
-Held-to-maturity	6.77	-	-	8.39
<b>Liabilities</b>				
Funds borrowed	0.90	1.84	-	-
Debt securities in issue	4.17	-	-	-
Interbank money market deposits	-	-	-	5.65



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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

In the analysis presented below, the sensitivity of the statement of comprehensive income is the effect in the interest rates on the net interest income of floating rate financial assets and liabilities at 31 December 2013 and 31 December 2012. The sensitivity of the shareholders' equity at 31 December 2013 and 31 December 2012 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 exchange rates, are assumed to be fixed in this analysis.

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

31 December 2012	Currency	Applied shock (+/- x basis points)	Gains / losses	Gains/shareholders' equity – losses/ shareholders' equity
1	TL	500	(69,933)	(1.84%)
		(400)	60,600	1.59%
2	EURO	200	(16,811)	(0.44%)
		(200)	17,299	0.45%
3	USD	200	181,575	4.77%
		(200)	(208,589)	(5.48%)
<b>Total (For negative shocks)</b>			<b>94,831</b>	<b>2.49%</b>
<b>Total (For positive shocks)</b>			<b>(130,690)</b>	<b>(3.44%)</b>

**(f) Liquidity risk**

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

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

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

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

As of 31 December 2013 and 31 December 2012, the table below analyses the assets and liabilities of the Bank into relevant maturity Bankings based on the remaining period at balance sheet date to the contractual maturity dates.

	31 December 2013					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No stated maturity	
Cash and due from banks	1,008,830	-	-	-	10,555	1,019,385
Trading securities	9,098	38,730	39,942	25,500	-	113,270
Derivative financial instruments	-	-	-	58,776	-	58,776
Derivative assets held for risk management	-	-	13,803	-	-	13,803
Loans and advances to customers	4,840,634	14,545,227	3,326,317	83,115	-	22,795,293
Investment securities						
- Available-for-sale	-	-	-	-	17,351	17,351
- Held-to-maturity	22,587	44,374	171,410	-	-	238,371
Property and equipment and intangible assets	-	-	-	-	19,409	19,409
Other assets	-	-	-	-	284,861	284,861
<b>Total assets</b>	<b>5,881,149</b>	<b>14,628,331</b>	<b>3,551,472</b>	<b>167,391</b>	<b>332,176</b>	<b>24,560,519</b>
Funds borrowed	3,464,199	12,451,596	538,226	832,679	-	17,286,700
Debt securities in issue	-	-	1,055,786	1,549,042	-	2,604,828
Interbank market deposits	163,945	-	-	-	-	163,945
Derivative financial instruments	1,409	44,802	-	-	-	46,211
Derivative liabilities held for risk management	-	-	-	39,272	-	39,272
Other liabilities	4,671	579	125,309	42,437	331,706	504,702
Reserve for employment termination benefits	-	-	-	-	12,193	12,193
<b>Total liabilities</b>	<b>3,634,224</b>	<b>12,496,977</b>	<b>1,719,321</b>	<b>2,463,430</b>	<b>343,899</b>	<b>20,657,851</b>
<b>Net liquidity gap</b>	<b>2,246,925</b>	<b>2,131,354</b>	<b>1,832,151</b>	<b>(2,296,039)</b>	<b>(11,723)</b>	<b>3,902,668</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

	31 December 2012					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	1,183,481	-	-	-	32,070	1,215,551
Trading securities	169,419	191,348	114,616	8,188	-	483,571
Derivative financial instruments	1,600	3	22,209	3,969	-	27,781
Loans and advances to customers	6,767,108	4,982,802	1,325,925	87,323	-	13,163,158
Investment securities						
- Available-for-sale	-	-	-	-	19,220	19,220
- Held-to-maturity	57,192	87,476	155,681	-	-	300,349
Property and equipment and intangible assets	-	-	-	-	19,835	19,835
Other assets	-	-	-	-	42,221	42,221
<b>Total assets</b>	<b>8,178,800</b>	<b>5,261,629</b>	<b>1,618,431</b>	<b>99,480</b>	<b>113,346</b>	<b>15,271,686</b>
Funds borrowed	5,776,448	2,434,740	226,388	670,916	-	9,108,492
Debt securities in issue	-	-	895,482	1,343,128	-	2,238,610
Interbank market deposits	10,006	-	-	-	-	10,006
Derivative financial instruments	13,885	15,173	-	-	-	29,058
Other liabilities	3,889	10,666	506	-	181,854	196,915
Reserve for employment termination benefits	-	-	-	-	12,440	12,440
<b>Total liabilities</b>	<b>5,804,228</b>	<b>2,460,579</b>	<b>1,122,376</b>	<b>2,014,044</b>	<b>194,294</b>	<b>11,595,521</b>
<b>Net liquidity gap</b>	<b>2,374,572</b>	<b>2,801,050</b>	<b>496,055</b>	<b>(1,914,564)</b>	<b>(80,948)</b>	<b>3,676,165</b>

The undiscounted cash flows of the financial liabilities of the Bank into relevant maturity Banking based on the remaining period at 31 December 2013 and 31 December 2012 to the contractual maturity dates are presented in the tables below:

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

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

	31 December 2012					Total
	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	No maturity	
Funds borrowed	5,914,353	2,262,942	491,260	856,816	-	9,525,371
Debt securities in issue	-	101,559	1,250,012	1,430,151	-	2,781,722
Interbank money market deposits	11,049	-	-	-	-	11,049
Other financial liabilities	3,889	1,512	115,926	-	-	121,327
<b>Total financial liabilities</b>	<b>5,929,291</b>	<b>2,366,013</b>	<b>1,857,198</b>	<b>2,286,967</b>	<b>-</b>	<b>12,439,469</b>

The undiscounted cash inflows and outflows of derivative transactions of the Bank at 31 December 2013 and 31 December 2012 are presented in the tables below:

	31 December 2013					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years		
<b>Derivatives held for trading:</b>						
Foreign exchange derivatives:						
- Outflow	482,856	1,124,736	-	320,959	-	1,928,551
- Inflow	489,399	1,123,706	-	296,296	-	1,909,401
Interest rate derivatives:						
- Outflow	1,458	2,482	73,940	-	-	77,880
- Inflow	867	1,395	73,123	-	-	75,385
<b>Derivatives held for risk management</b>						
Foreign exchange derivatives:						
- Outflow	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
Interest rate derivatives:						
- Outflow	-	126,866	1,585,866	1,680,011	-	3,392,743
- Inflow	-	150,135	1,544,973	1,633,925	-	3,329,033
<b>Total outflow</b>	<b>484,314</b>	<b>1,254,084</b>	<b>1,659,806</b>	<b>2,000,970</b>	<b>-</b>	<b>5,399,174</b>
<b>Total inflow</b>	<b>490,266</b>	<b>1,251,967</b>	<b>1,658,989</b>	<b>1,976,307</b>	<b>-</b>	<b>5,377,529</b>

	31 December 2012					Total
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years		
<b>Derivatives held for trading:</b>						
Foreign exchange derivatives:						
- Outflow	817,917	-	-	266,098	-	1,084,015
- Inflow	805,387	-	-	249,634	-	1,055,021
Interest rate derivatives:						
- Outflow	1,424	39,603	145,982	-	-	187,009
- Inflow	684	48,376	145,365	-	-	194,425
<b>Total outflow</b>	<b>819,341</b>	<b>39,603</b>	<b>145,982</b>	<b>266,098</b>	<b>-</b>	<b>1,271,024</b>
<b>Total inflow</b>	<b>806,071</b>	<b>48,376</b>	<b>145,365</b>	<b>249,634</b>	<b>-</b>	<b>1,249,446</b>

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**4 FINANCIAL RISK MANAGEMENT (continued)**

**(g) Fair value hedges**

Starting from 1 January 2013, the Bank hedged the possible fair value effects of changes in labor interest rates on 5.375% and 5.875% fixed interest rate debt securities amounting 500 million and 460 million US dollars funding by using interest rate swaps.

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

31 December 2013					
Type of hedging instrument	Hedge item (asset and liability)	Nature of hedge risks	Fair value difference/adjustment of the hedge item	Net fair value of the	
				Asset	Liability
Interest rate swaps	Fixed interest rate US dollar debt securities	Fixed interest rate risk	(55,582)	13,803	39,272

The Bank make an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 – 125 percent.

Changes in the fair value of derivative instruments subject to fair value hedges are recognised under profit or loss accounts together with the variation in the fair value of hedges items. The changes of fair value of derivative transactions for fair value hedge are classified in "Derivative Financial Transactions Gains/Losses" account. The ineffective portion of the mentioned hedging transactions is reflected to the income statement. 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 amortised with the straight line method within the time to maturity and recognised under the profit and loss accounts.

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

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

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

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

**(i) Financial assets**

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

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

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

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

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

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**4 FINANCIAL RISK MANAGEMENT (continued)**

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

**(ii) Financial liabilities**

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

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

**(iii) Derivative financial instruments**

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

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

	31 December 2013		31 December 2012	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>				
Cash and due from Banks	1,019,385	1,019,385	1,215,551	1,215,551
Investment securities				
- Held to maturity	238,371	243,046	300,349	303,419
- Available for sale	4,370 <sup>(1)</sup>	4,370	4,260 <sup>(1)</sup>	4,260
Loans and advances to customers <sup>(2)</sup>	22,795,293	24,210,725	13,163,158	13,257,628
<b>Financial liabilities:</b>				
Funds borrowed	17,286,700	17,313,640	9,108,492	9,117,917
Debt securities in issue	2,604,828	2,604,828	2,238,610	2,239,289
Interbank money market deposits	163,945	163,945	10,006	11,629

(1) Garanti Faktoring Hizmetleri AŞ shares amounting to TL 12,981 are not included (31 December 2012: TL 15,010).

(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 are determined as Level 2.

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

The following table summarises the fair values of those financial assets and liabilities presented on the Bank's balance sheet based on the hierarchy of valuation technique as of 31 December 2013 and 31 December 2012.

<b>31 December 2013</b>	<b>Level 1<sup>(1)</sup></b>	<b>Level 2<sup>(2)</sup></b>	<b>Level 3<sup>(3)</sup></b>	<b>Total</b>
<b>Financial assets at fair value through profit and loss</b>				
<b>Financial assets held for trading</b>				
- Debt securities	113,270	-	-	113,270
- Derivatives	-	58,776	-	58,776
<b>Derivative asset held for risk management</b>	-	13,803	-	13,803
<b>Available-for-sale financial assets</b>				
- Investment securities - equity	12,981	-	4,370 <sup>(4)</sup>	17,351
<b>Total assets</b>	<b>126,251</b>	<b>72,579</b>	<b>4,370</b>	<b>203,200</b>
<b>Financial liabilities at fair value through profit and loss</b>				
<b>Financial liabilities held for trading</b>				
- Derivatives	-	46,211	-	46,211
<b>Derivative asset held for risk management</b>	-	39,272	-	39,272
<b>Total liabilities</b>	-	<b>85,483</b>	-	<b>85,483</b>

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

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

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

(4) Note 10a.

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**4 FINANCIAL RISK MANAGEMENT (continued)**

31 December 2012	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Financial assets at fair value through profit and loss</b>				
<b>Financial assets held for trading</b>				
- Debt securities	483,571	-	-	483,571
- Derivatives	-	27,781	-	27,781
<b>Available-for-sale financial assets</b>				
- Investment securities - equity	15,010	-	4,210 <sup>(4)</sup>	19,220
<b>Total assets</b>	<b>498,581</b>	<b>27,781</b>	<b>4,210</b>	<b>530,572</b>
<b>Financial liabilities at fair value through profit and loss</b>				
<b>Financial liabilities held for trading</b>				
- Derivatives	-	29,058	-	29,058
<b>Total liabilities</b>	<b>-</b>	<b>29,058</b>	<b>-</b>	<b>29,058</b>

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

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

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

(4) Note 10a.

**(i) Capital management**

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current period minus period loss (if any), prepaid expenses, leasehold improvements and intangible assets), its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations in financial institutions, subordinated loans extended, goodwill and capitalised costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk, market risk and operational risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

The Bank has complied with the minimum capital adequacy ratio requirement, stated above, for the periods ended 31 December 2013 and 31 December 2012.



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**4 FINANCIAL RISK MANAGEMENT (continued)**

The Bank's regulatory capital position on at 31 December 2013 and 31 December 2012 were as follows:

	31 December 2013	31 December 2012
Tier I capital	3,902,343	3,668,747
Tier II capital	133,913	134,841
<b>Total regulatory capital (A)</b>	<b>4,036,256</b>	<b>3,803,588</b>
Risk-weighted assets (including market and operational risk) (B)	15,414,150	15,141,208
<b>Capital adequacy ratio (%) (A)/(B)</b>	<b>26.19</b>	<b>25.12</b>

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

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

**(a) 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 the income statement, 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**

	31 December 2013	31 December 2012
<b>Cash funds:</b>		
Cash on hand	20	13
	<b>20</b>	<b>13</b>
<b>Current accounts and demand deposits:</b>		
Central Bank of Republic of Turkey (CBRT)	260	538
Foreign banks	101,856	11,015
Domestic banks	-	880
	<b>102,116</b>	<b>12,433</b>
<b>Time deposits:</b>		
Central Bank of Republic of Turkey (CBRT)	-	19,625
Foreign banks	-	280,860
Domestic banks	917,249	506,181
	<b>917,249</b>	<b>806,666</b>
<b>Interbank money market placements</b>	-	<b>396,439</b>
<b>Total cash and due from banks</b>	<b>1,019,385</b>	<b>1,215,551</b>

Cash and cash equivalents included in the statements of cash flows for the year ended 31 December 2013 and 2012 is as follows:

	31 December 2013	31 December 2012
Cash and due from banks	1,019,385	1,215,551
Less: interest accruals	(60)	(994)
Less: time deposits with maturities exceeding 3 months	-	-
<b>Cash and cash equivalents</b>	<b>1,019,325</b>	<b>1,214,557</b>

Cash and cash equivalents are mainly composed of bank deposits as of 31 December 2013 and 2012.

**7 TRADING SECURITIES**

	31 December 2013	31 December 2012
Government bonds	49,189	475,382
Eurobonds	64,081	8,189
<b>Total</b>	<b>113,270</b>	<b>483,571</b>

As of 31 December 2013, the carrying value of securities subject to repurchase transactions is TL 40,152 (31 December 2012: TL 10,045).

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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 favorable (as assets) or unfavorable (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 favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The fair values of derivative instruments held as of 31 December 2013 and 31 December 2012 are set out in the following table:

	31 December 2013		31 December 2012	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps purchases and sales	26	-	-	(3,601)
Foreign currency swaps purchases and sales	47,827	(3,776)	27,781	(11,373)
Cross currency swaps purchases and sales	10,923	(42,435)	-	(14,084)
<b>Total derivative assets/(liabilities)</b>	<b>58,776</b>	<b>(46,211)</b>	<b>27,781</b>	<b>(29,058)</b>

Even though certain derivative transactions, while providing effective economic hedges under the Bank’s risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading.

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;

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Short-term</b>		
Financial institutions	3,484,511	3,078,761
Export guaranteed loans	626,372	795,489
Fund sourced loans	-	-
Specialised loans	127,995	133,639
Discount loans	13,329,406	6,891,590
Other guaranteed loans	7,353	17,790
	<b>17,575,637</b>	<b>10,917,269</b>
<b>Medium and long-term</b>		
Financial institutions	1,449,509	648,992
Export guaranteed loans	3,133,260	1,202,370
Foreign country loans (political risks)	202,620	182,011
Specialised loans	97,734	14,675
Export guaranteed investment loans	313,745	66,697
Fund sourced loans	871	2,237
Other	111,212	201,444
	<b>5,308,951</b>	<b>2,318,426</b>
<b>Performing loans</b>	<b>22,884,588</b>	<b>13,235,695</b>
Loans under close monitoring	39,687	56,445
Impaired loans and advances	117,478	112,383
<b>Gross loans and advances to customers</b>	<b>23,041,753</b>	<b>13,404,523</b>
Allowance for loan losses	(246,460)	(241,365)
<b>Net loans and advances to customers</b>	<b>22,795,293</b>	<b>13,163,158</b>

The Bank provides 100% impairment provision for non-performing loans amounting to TL 117,478 (31 December 2012: TL 112,383) comprising 0.52% (31 December 2012: 0.84%) of the total loans outstanding at 31 December 2013. The Bank also provided an additional impairment provision amounting to TL 162,163 (31 December 2012: 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 year ended 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	241,365	183,258
Recoveries	(27)	(2,680)
Provision for the year	5,122	60,787
<b>Balance at the end of the year</b>	<b>246,460</b>	<b>241,365</b>

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

	31 December 2013	31 December 2012
Public sector	1,443,588	693,451
Private sector	21,598,165	12,711,072
	<b>23,041,753</b>	<b>13,404,523</b>

**10 INVESTMENT SECURITIES**

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

	31 December 2013	31 December 2012
Equity securities		
- Listed	12,981	15,010
- Unlisted	4,370	4,210
<b>Total available-for-sale securities</b>	<b>17,351</b>	<b>19,220</b>

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

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

The breakdown of available-for-sale equity securities at 31 December 2013 and 31 December 2012 are as follows:

	Share %		Carrying amount		Business
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	
<b>Equity securities</b>					
Garanti Faktoring Hizmetleri AŞ	9.78	9.78	12,981	15,010	Factoring
Kredi Garanti Fonu AŞ	1.75	1.66	4,210	4,210	Financial services
Borsa İstanbul	-	-	160	-	Financial services
			<b>17,351</b>	<b>19,220</b>	

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**10 INVESTMENT SECURITIES (continued)**

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

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Debt securities</b>		
- Government bonds	238,371	258,398
- Eurobonds	-	41,951
<b>Total held-to-maturity securities</b>	<b>238,371</b>	<b>300,349</b>

As of 31 December 2013, government bonds and treasury bills amounting to TL 65,142 (31 December 2012: TL 193,976) have been pledged as collateral with the CBRT and Borsa İstanbul AŞ-Settlement and Custody Bank.

The movement of held-to-maturity securities for the year ended 31 December 2013 and 2012 are as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Balance at 1 January</b>	<b>300,349</b>	<b>511,436</b>
Purchases	100,026	92,167
Redemptions	(161,732)	(287,169)
Foreign exchange difference	5,542	(3,860)
Interest income accruals	(5,814)	(12,225)
<b>Balance at 31 December</b>	<b>238,371</b>	<b>300,349</b>

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**11 PROPERTY AND EQUIPMENT**

	<b>Buildings</b>	<b>Vehicles</b>	<b>Other tangible assets</b>	<b>Total</b>
<b>Cost</b>				
Opening balance, 1 January 2012	16,805	1,343	10,834	28,982
Additions	10,243	1,304	1,655	13,202
Disposals	(6,898)	(346)	(164)	(7,408)
<b>Closing balance, 31 December 2012</b>	<b>20,150</b>	<b>2,301</b>	<b>12,325</b>	<b>34,776</b>
<b>Accumulated depreciation:</b>				
Opening balance, 1 January 2012	10,392	575	9,124	20,091
Additions	310	296	1,044	1,650
Disposals	(5,969)	(331)	(40)	(6,340)
<b>Closing balance, 31 December 2012</b>	<b>4,733</b>	<b>540</b>	<b>10,128</b>	<b>15,401</b>
<b>Cost</b>				
Opening balance, 1 January 2013	20,150	2,301	12,325	34,776
Additions	-	-	6,394	6,394
Disposals	(4,565)	-	(5,660)	(10,225)
<b>Closing balance, 31 December 2013</b>	<b>15,585</b>	<b>2,301</b>	<b>13,059</b>	<b>30,945</b>
<b>Accumulated depreciation:</b>				
Opening balance, 1 January 2013	4,733	540	10,128	15,401
Additions	177	419	3,267	3,863
Disposals	(2,034)	-	(5,156)	(7,190)
<b>Closing balance, 31 December 2013</b>	<b>2,876</b>	<b>959</b>	<b>8,239</b>	<b>12,074</b>
<b>As at 31 December 2012, net book value</b>	<b>15,417</b>	<b>1,761</b>	<b>2,197</b>	<b>19,375</b>
<b>As at 31 December 2013, net book value</b>	<b>12,709</b>	<b>1,342</b>	<b>4,820</b>	<b>18,871</b>

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**12 INTANGIBLE ASSETS**

	<b>Intangible assets</b>
<b>Cost</b>	
Opening balance, 1 January 2012	1,667
Additions	214
Disposals	-
<b>Closing balance, 31 December 2012</b>	<b>1,881</b>
<b>Accumulated amortisation:</b>	
Opening balance, 1 January 2012	(1,099)
Additions	(322)
Disposals	-
<b>Closing balance, 31 December 2012</b>	<b>(1,421)</b>
<b>Cost</b>	
Opening balance, 1 January 2013	1,881
Additions	347
Disposals	-
<b>Closing balance, 31 December 2013</b>	<b>2,228</b>
<b>Accumulated amortisation:</b>	
Opening balance, 1 January 2012	(1,421)
Additions	(269)
Disposals	-
<b>Closing balance, 31 December 2013</b>	<b>(1,690)</b>
<b>As at 31 December 2012, net book value</b>	<b>460</b>
<b>As at 31 December 2013, net book value</b>	<b>538</b>



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**13 OTHER ASSETS**

	31 December 2013	31 December 2012
<b>Financial assets</b>		
Guarantees given	179,337	7,670
Receivables from banks	42,610	-
Notes receivable	26,983	5,152
Receivables from Development and Support Fund	10,304	8,681
Insurance premiums receivables	8,078	5,938
Other	5	3,571
<b>Non-financial assets</b>		
Upfront fees paid	20,938	17,048
Other	-	2,842
	<b>295,165</b>	<b>50,902</b>
Provision for impairment on other assets	(10,304)	(8,681)
	<b>284,861</b>	<b>42,221</b>

As at 31 December 2013, USD 447,071 (TL 857, 31 December 2012: TL 797) receivable from the Development and Support Fund is due to the incomplete payment of General Headquarters of Gendarmerie regarding the military equipment purchases. Rest of the receivables from the Development and Support Fund, amounting to USD 4,421,357 (TL 8,476, 31 December 2012: TL 7,884), arises from the exchange losses due to the late transfer of the funds to the Bank from the Ministry of Defense. As of 31 December 2013, there is no improvement in the collection of these receivables and 100% provision is recognised as provision for impairment on other assets.

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

	31 December 2013	31 December 2012
<b>Interbank money market deposits – TL</b>	<b>163,945</b>	<b>10,006</b>
Domestic Banks	13,464,040	7,072,720
Foreign Banks	3,822,660	2,035,772
<b>Funds borrowed</b>	<b>17,286,700</b>	<b>9,108,492</b>
<b>Funds borrowed and interbank money market deposits total</b>	<b>17,450,645</b>	<b>9,118,498</b>

Interest rate for interbank money market deposits is 4.50% (31 December 2012: 5.65%) and the maturity dates of such deposits is between 1 January 2014 and 2 January 2014 (31 December 2012: maturity date is 25 January 2013).

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**14 FUNDS BORROWED (continued)**

The breakdown of funds borrowed as of 31 December 2013 and 31 December 2012 is as follows:

31 December 2013	Interest rate	Original currency amount (thousands)	Original currency	TL	Maturity Date
<b>Due to Central Bank</b>				<b>13,158,583</b>	
CBRT Loan		4,620,308	USD	9,778,420	(1)
CBRT Loan	LIBOR/EURIBOR for 120 days	1,157,267	EUR	3,372,623	(1)
CBRT Loan	LIBOR/EURIBOR + %0,20 for 240 days	2,156	GBP	7,540	(1)
<b>Due to IFIs</b>				<b>1,224,145</b>	
World Bank (EFIL) Loans	LIBOR+%0,051	203,637	USD	430,977	01.03.2038
World Bank (EFIL) Loans	EURIBOR+%0,071	54,462	EUR	158,719	01.03.2038
European Investment Bank	LIBOR+%1,588-%1,859	111,349	USD	235,659	16.01.2024-29.07.2024
European Investment Bank	EURIBOR+%0,281-%1,175	136,839	EUR	398,790	17.12.2021-29.07.2024
<b>Due to Commercial Banks</b>				<b>2,744,999</b>	
National Bank Of Kuwait Mediobanca Banca Di Credito	LIBOR+%3,35	15,048	USD	31,848	15.05.2015
International Islamic Trade	LIBOR+%1,65	25,029	USD	52,971	25.11.2014
Standart Chartered Bank	LIBOR+%2,10	50,003	USD	105,826	30.06.2014
Doha Bank	LIBOR+%1,50	49,824	USD	105,448	21.08.2014
Mizuho Corporate Bank	LIBOR+%1,65-%1,70	60,200	USD	127,407	12.03.2014-10.11.2014
ING Bank N.V.	EURIBOR+%1,35	100,400	EUR	292,596	21.08.2014
Bank of Tokyo Mitsubishi	EURIBOR+%1,65-%1,80	100,430	EUR	292,683	02.07.2014-25.11.2014
Citibank Europe Plc	EURIBOR+%1,35	50,231	EUR	146,388	16.09.2014
Syndicated loan	LIBOR+%1,38-%1,79	150,000	USD	317,460	04.04.2014-03.11.2014
Syndicated loan	LIBOR+%1,65	26,809	USD	56,739	13.02.2014
Syndicated loan	EURIBOR+%1,33-1,63	417,127	EUR	1,215,633	13.02.2014-04.07.2014
<b>Others</b>				<b>158,973</b>	
Subordinated loan	LIBOR+%0,5	75,115	USD	158,973	15.04.2018
<b>Total funds borrowed</b>		<b>8,167,974</b>	(2)	<b>17,286,700</b>	

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

(2) Balance is denominated by USD.

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**14 FUNDS BORROWED (continued)**

31 December 2012	Interest rate	Original currency amount (thousands)	Original currency	TL	Maturity date
<b>Due to Central Bank</b>				<b>6,802,848</b>	
CBRT Loan		3,146,435	USD	5,610,409	(1)
CBRT Loan		506,687	EUR	1,192,133	(1)
CBRT Loan	LIBOR/EURIBOR for 120 - 180 days	106	GBP	307	(1)
<b>Due to IFIs</b>				<b>884,582</b>	
World Bank (EFIL) Loans	LIBOR+%0,051	200,336	USD	357,219	01.03.2038
World Bank (EFIL) Loans	EURIBOR+%0,071	51,279	EUR	120,649	01.03.2038
European Investment Bank	LIBOR+%1,588-%1,859	111,520	USD	198,851	16.01.2024-29.07.2024
European Investment Bank	EURIBOR+%0,281-%1,175	88,347	EUR	207,863	17.12.2021-29.07.2024
<b>Due to Commercial Banks</b>				<b>1,257,298</b>	
National Bank Of Kuwait	LIBOR+%3,35	15,051	USD	26,837	15.05.2015
Al Ahli Bank Kuwait	LIBOR+%3,3	25,133	USD	44,815	08.05.2013
Emirates NBD	LIBOR+%3,2	15,070	USD	26,871	25.07.2013
Standart Chartered Bank	LIBOR+%1,75	50,423	USD	89,909	22.08.2013
Doha Bank	LIBOR+%2,75	25,226	USD	44,980	19.03.2013
Mizuho Corporate Bank	EURIBOR+%2	25,149	EUR	59,171	21.08.2013
ING Bank N.V.	EURIBOR+%4	50,123	EUR	117,929	26.02.2013
Garanti International	EURIBOR+%2,5	10,079	EUR	23,714	24.09.2013
Syndicated loan	EURIBOR+%1,60-1,97	349,826	EUR	823,071	17.01.2013-25.06.2013
<b>Others</b>				<b>163,764</b>	
Subordinated loan	LIBOR+%0,5	91,842	USD	163,764	15.04.2018
<b>Total funds borrowed</b>		<b>5,108,234</b>	(2)	<b>9,108,492</b>	

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

(2) Balance is denominated by USD.

The repayment of the funds borrowed was as follows during 2013:

	Repayment amount	Dates
Club Loan - Syndicated loan	EUR 125,000,000	17.01.2013
Ing Bank N.V.	EUR 50,000,000	26.02.2013
Doha Bank	USD 25,000,000	19.03.2013
Subordinated loans	USD 8,333,000	15.04.2013
Al Ahli Bank of Kuwait	USD 25,000,000	08.05.2013
Club Loan - Syndicated loan	EUR 224,000,000	25.06.2013
Emirates NBD	USD 15,000,000	25.07.2013
Mizuho Corporate Bank Ltd	EUR 25,000,000	21.08.2013
Standard Chartered	USD 50,000,000	22.08.2013
Garanti International	EUR 10,000,000	24.09.2013
Subordinated loans	USD 8,333,000	15.10.2013
European Investment Bank	EUR 1,470,588	17.12.2013
ITFC	USD 50,000,000	27.12.2013

**Debt securities in issue**

As of 31 December 2013, the total liability amount due for bonds issued by the Bank on October 2011 and April 2012, amounting to USD 1,000 million and October 2012 amounting to USD 250 million is TL 2,604,828 with TL 2,578,344 as principal and the TL 26,484 as interest.

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**15 TAXATION**

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

**16 OTHER LIABILITIES**

The principal components of other liabilities are as follows:

	31 December 2013	31 December 2012
<b>Financial liabilities</b>		
Guarantees received <sup>(1)</sup>	403,844	108,558
Positive price difference on bonds issued	43,454	43,454
Turkish Treasury-current account-Iraq Credit Funds	998	2,196
Other	32	41
	22,716	19,451
<b>Non-financial liabilities</b>		
Vacation pay liability <sup>(2)</sup>	8,760	8,731
Insurance technical provisions	10,645	5,325
Other	14,253	9,159
	<b>504,702</b>	<b>196,915</b>

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

(2) Payment amounting to TL 1,214 was made from the vacation pay liability account during the year 2013.

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

As of 31 December 2013, the TL amount under Turkish Treasury Current Account followed under 145-Medium Long term Fund Sourced Loans includes the foreign exchange differences calculated for the Iraq Loan whose risk has been transferred to the Turkish Treasury. The total FC amount under Turkish Treasury Current Account belongs to Iraq Loan. In addition, Law No. 6111 on restructuring some receivables became valid in 25 February 2011. This restructuring enabled restructuring of Iraq loans sourced by Development and Supporting Fund (DSF). The first four installment amounts, paid by the firms which paid in advance or applied for payment in installments within the firms applied for restructuring with respect to the law came into force, are transferred to the accounts of Treasury as of 31 December 2012. In addition, TL 1,284 against USD 652 thousand was collected from the firms make payment in installments and transferred to Treasury as of 31 December 2013. The loans of the firms not under restriction were cut within maturity and removed from balance sheet. The amounts removed from the balance sheet are TL 668 against USD 348 thousand as of 31 December 2013.

The movements for insurance technical provision are as follows:

	31 December 2013	31 December 2012
1 January	5,325	4,900
Paid claims	437	(5,406)
Increase	4,883	5,831
<b>At 31 December</b>	<b>10,645</b>	<b>5,325</b>

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**17 RETIREMENT BENEFIT OBLIGATIONS**

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

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

Actuarial gains/losses, calculated as TL 404 in relation to the reserve for employee termination benefits, are shown under shareholders' equity and as TL 653 in relation to the current service cost and interest expense, are recognised in other comprehensive income in accordance with the change in IAS 19 (2011).

IAS 19 (2011) "Employment Benefits" requires actuarial valuation methods to be developed to estimate the enterprise's obligation for such benefits. Accordingly, the following actuarial assumptions were used in the calculation of the total liability as at 31 December 2013 and 31 December 2012:

	<b>31 December 2013</b>	<b>31 December 2012</b>
Discount rate (%)	2.82	2.60
Rate to estimate the probability of retirement (%)	0.98	0.98

Movement in the reserve for employment termination benefits for the years ended 31 December 2013 and 2012 are as follows:

	<b>31 December 2013</b>	<b>31 December 2012</b>
1 January	12,440	11,560
Current service cost	533	974
Interest expense	627	538
Actuarial losses	404	1,118
Payments during the year	(1,811)	(3,286)
<b>At 31 December</b>	<b>12,193</b>	<b>12,440</b>

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**18 SHARE CAPITAL**

The historical paid in share capital of the Bank is TL 2,200,000 (31 December 2012: TL 2,000,000) and consists of 2.2 billion (31 December 2012: 2 billion) authorised shares with a nominal value of TL 1 each.

	<b>31 December 2013</b>	<b>31 December 2012</b>
Share capital - historical cost	2,200,000	2,000,000
Adjustment to share capital	812,518	812,518
<b>Total paid in share capital</b>	<b>3,012,518</b>	<b>2,812,518</b>

The Bank is fully owned by Turkish Treasury.

The adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at 31 December 2005 after elimination of the accumulated deficit.

Other reserve is amounting to TL 22,743 (31 December 2012: TL 22,743).

The legal reserves amounting to TL 268,093 (31 December 2012: TL 256,388) 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.

As per the legislation on capital adequacy (Basel II) effective from 1 July 2012, the risk weighting of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in the current period, the Bank transferred, for the purpose of selling, a part of its Eurobonds from its held-to-maturity portfolio as per the exception granted by IAS 39 for the sale/transfer of securities originally classified under the securities held-to-maturity in cases where the capital requirement increases due to legal legislation.

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 31 December 2013, such gains/(losses) recognised under equity in fair value reserves amounted to TL 8,221 (31 December 2012: TL 10,282).

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**19 NET INTEREST INCOME**

	31 December 2013	31 December 2012
<b>Interest income on:</b>		
Interest on loans and advances to customers	546,059	467,415
Interest on held to maturity investments	18,683	31,351
Interest on trading financial assets	16,037	39,259
Interest on interbank money market placements	12,255	13,014
Interest on deposits with banks	8,957	22,239
Other interest income	1,097	459
<b>Total interest income</b>	<b>603,088</b>	<b>573,737</b>
<b>Interest expense on:</b>		
Interest on debt securities in issue	(133,021)	(90,785)
Interest on funds borrowed	(80,928)	(80,444)
Interest expense on repo transactions	-	(6,788)
Other interest expenses	(4,951)	(20)
<b>Total interest expense</b>	<b>(218,900)</b>	<b>(178,037)</b>
<b>Net interest income</b>	<b>384,188</b>	<b>395,700</b>

**20 FOREIGN EXCHANGE GAIN AND LOSSES**

	31 December 2013	31 December 2012
Foreign exchange gain	1,576,456	291,498
Foreign exchange losses	1,796,922	367,764
<b>Total</b>	<b>(220,466)</b>	<b>(76,266)</b>

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

	31 December 2013	31 December 2012
Derivative trading income	310,088	16,842
Derivative trading expense	(139,711)	(157,968)
Trading income	2,390	6,833
Trading expense	(24,589)	151,578
<b>Total</b>	<b>148,178</b>	<b>17,285</b>

**22 OTHER OPERATING INCOME**

	31 December 2013	31 December 2012
Insurance premium income	51,481	43,305
Income from sale of asset held for sale	18,772	-
Commission from reinsurance companies	12,430	9,499
Other	4,157	5,466
<b>Total</b>	<b>86,840</b>	<b>58,270</b>

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**23 OPERATING EXPENSES**

	31 December 2013	31 December 2012
Staff costs	65,657	41,925
Premiums paid to reinsurance companies	39,006	26,844
KOSGEB fee <sup>(1)</sup>	4,926	4,514
Research expenses	4,914	3,371
Depreciation and amortisation charges	4,132	933
Rent expenses	3,909	2,643
BRSA contribution expense	3,721	4,641
Taxes and duties expenses	2,412	1,740
Vehicle expenses	1,272	1,039
Employment termination benefits and unused vacation provision expense	1,189	6,218
Other	15,377	17,963
<b>Total</b>	<b>146,515</b>	<b>111,831</b>

<sup>(1)</sup> As the Bank's more than 50% of the paid-in share capital is owned by the government entities, the Bank is obliged to pay annual fee at a rate of 2% of the corporate tax base of the Bank to Small and Medium Industries Development Organisation ("KOSGEB") in accordance with the establishment law of KOSGEB.

**24 COMMITMENTS AND CONTINGENT LIABILITIES**

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

**Legal proceedings**

At 31 December 2013, there are 73 legal proceedings outstanding against the Bank amounting to USD 2,598 and TL 566. As of 31 December 2013, the Bank has not provided a provision for these legal proceedings, since possible outflow of resources embodying economic benefits to settle these contingent liabilities will be immaterial. A number of the outstanding litigation cases in Turkish courts relate to employee bonus payments.



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

**Commitments under derivative instruments:**

The breakdown of swap transactions at 31 December 2013 and 31 December 2012 is as follows:

	31 December 2013			31 December 2012	
	Currency	Foreign currency amount	TL	Foreign currency amount	TL
<b>Transaction type</b>					
Interest rate swap purchases	USD	1,144,000,000	2,421,162	1,036,000,000	1,847,292
	EUR	-	-	50,000,000	117,640
Foreign currency swap purchases	USD	240,000,000	507,935	93,900,000	220,928
	TL	-	-	89,976,500	89,977
Foreign currency forward purchases	USD	638,382,000	1,351,071	255,946,000	456,377
	TL	-	-	38,104,974	38,105
Cross currency swaps purchases	USD	20,000,000	42,328	140,000,000	249,634
Option purchases	TL	8,070,000	8,070	-	-
<b>Total purchases</b>			<b>4,330,566</b>		<b>3,019,953</b>
Interest rate swap sales	USD	1,144,000,000	2,421,162	1,036,000,000	1,847,292
	EUR	-	-	50,000,000	117,640
Foreign currency swap sales	USD	97,704,000	284,739	50,000,000	89,155
	TL	253,768,000	253,768	221,578,465	221,578
Foreign currency forward sales	USD	1,345,078,000	1,345,078	21,070,000	37,570
	TL	-	-	469,614,051	469,614
Cross currency swaps sales	EUR	-	-	97,703,957	229,878
	TL	36,220,000	36,220	36,220,000	36,220
Option sales	EUR	3,000,000	8,741	-	-
<b>Total sales</b>			<b>4,349,708</b>		<b>3,048,947</b>
<b>Total</b>			<b>8,680,274</b>		<b>6,068,900</b>

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

Maturity analysis of swap and forward transactions are as follows:

	31 December 2013				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swap purchases	-	-	1,089,946	1,331,216	2,421,162
Foreign currency swap purchases	253,967	-	-	253,968	507,935
Forward foreign currency purchases	-	1,351,071	-	-	1,351,071
Cross currency swaps purchases	-	-	-	42,328	42,328
Option purchases	8,070	-	-	-	8,070
<b>Total purchases</b>	<b>262,037</b>	<b>1,351,071</b>	<b>1,089,946</b>	<b>1,627,512</b>	<b>4,330,566</b>
Interest rate swap sales	-	-	1,089,946	1,331,216	2,421,162
Foreign currency swap sales	253,768	-	-	284,739	538,507
Forward foreign currency sales	-	1,345,078	-	-	1,345,078
Cross currency swaps sales	-	-	-	36,220	36,220
Option sales	8,741	-	-	-	8,741
<b>Total sales</b>	<b>262,509</b>	<b>1,345,078</b>	<b>1,089,946</b>	<b>1,652,175</b>	<b>4,349,708</b>
	31 December 2012				
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Interest rate swap purchases	121,207	71,324	1,041,330	731,071	1,964,932
Foreign currency swap purchases	310,905	-	-	-	310,905
Forward foreign currency purchases	494,482	-	-	-	494,482
Cross currency swaps purchases	-	-	-	249,634	249,634
<b>Total purchases</b>	<b>926,594</b>	<b>71,324</b>	<b>1,041,330</b>	<b>980,705</b>	<b>3,019,953</b>
Interest rate swap sales	121,207	71,324	1,041,330	731,071	1,964,932
Foreign currency swap sales	310,733	-	-	-	310,733
Forward foreign currency sales	507,184	-	-	-	507,184
Cross currency swaps sales	-	-	-	266,098	266,098
<b>Total sales</b>	<b>939,124</b>	<b>71,324</b>	<b>1,041,330</b>	<b>997,169</b>	<b>3,048,947</b>

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

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

**Credit related commitments:**

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

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

The following table shows the outstanding credit related commitments of the Bank at 31 December 2013 and 31 December 2012:

	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Financial guarantees</b>		
Other guarantees		
-Foreign currency (Note 4)	1,219,632	682,148
<b>Total financial guarantees</b>	<b>1,219,632</b>	<b>682,148</b>

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

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**25 SEGMENT ANALYSIS**

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

<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Segment revenue	204,109	638,156	-	842,265
Segment expenses	(143,305)	(92,991)	(360,040)	(596,336)
<b>Net profit</b>	<b>60,804</b>	<b>545,165</b>	<b>(360,040)</b>	<b>245,929</b>

Interest income	55,932	547,156	-	603,088
Interest expense	(137,972)	(80,928)	-	(218,900)
Depreciation and amortisation	-	-	(4,132)	(4,132)
Impairment charges on loans	(5,122)	-	-	(5,122)

<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
<b>Total segment assets</b>	<b>22,834,780</b>	<b>1,661,060</b>	<b>64,679</b>	<b>24,560,519</b>
Segment liabilities	17,702,871	2,897,236	57,744	20,657,851
Equity	-	-	3,902,668	3,902,668
<b>Total liabilities and equity</b>	<b>17,702,871</b>	<b>2,897,236</b>	<b>3,960,412</b>	<b>24,560,519</b>

<b>31 December 2012</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Segment revenue	820,609	125,151	-	945,760
Segment expenses	(683,766)	(115)	(40,690)	(724,571)
<b>Net profit</b>	<b>136,843</b>	<b>125,036</b>	<b>(40,690)</b>	<b>221,189</b>

Interest income	499,225	74,512	-	573,737
Interest expense	(178,038)	-	-	(178,038)
Depreciation and amortisation	-	-	933	933
Impairment charges on loans	(60,787)	-	-	(60,787)

<b>31 December 2012</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
<b>Total segment assets</b>	<b>13,279,958</b>	<b>7,730,198</b>	<b>(5,738,470)</b>	<b>15,271,686</b>
Segment liabilities	11,564,680	-	30,841	11,595,521
Equity	-	10,282	3,665,883	3,676,165
<b>Total liabilities and equity</b>	<b>11,564,680</b>	<b>10,282</b>	<b>3,696,724</b>	<b>15,271,686</b>

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**25 SEGMENT ANALYSIS (continued)**

Reconciliation of segment results of operations to:

<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest income	55,932	547,156	-	603,088
Fee and commissions income	-	4,159	-	4,159
Foreign exchange gain	-	-	-	-
Losses on financial instruments classified as held for trading, net	148,178	-	-	148,178
Other operating income	86,840	-	-	86,840
<b>Total segment revenue</b>	<b>290,950</b>	<b>551,315</b>	<b>-</b>	<b>842,265</b>

<b>31 December 2013</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest expense	(137,972)	(80,928)	-	(218,900)
Fee and commissions expense	(5,333)	-	-	(5,333)
Impairment charges on loans	(5,122)	-	-	(5,122)
Foreign exchange losses	-	-	(220,466)	(220,466)
Other operating expenses	-	-	(146,515)	(146,515)
<b>Total segment expense</b>	<b>(148,427)</b>	<b>(80,928)</b>	<b>(366,981)</b>	<b>(596,336)</b>

<b>31 December 2012</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest income	499,225	74,512	-	573,737
Fee and commissions income	4,713	255	-	4,968
Foreign exchange gain	291,500	-	-	291,500
Gains on financial instruments classified as held for trading, net	-	17,285	-	17,285
Other operating income	25,170	33,100	-	58,270
<b>Total segment revenue</b>	<b>820,608</b>	<b>125,152</b>	<b>-</b>	<b>945,760</b>

<b>31 December 2012</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Unallocated</b>	<b>Total</b>
Interest expense	(178,037)	-	-	(178,037)
Fee and commissions expense	(6,150)	-	-	(6,150)
Impairment charges on loans	(60,787)	-	-	(60,787)
Foreign exchange losses	(367,766)	-	-	(367,766)
Other operating expense	(71,027)	(114)	(40,690)	(111,831)
<b>Total segment expense</b>	<b>(683,767)</b>	<b>(114)</b>	<b>(40,690)</b>	<b>(724,571)</b>

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**26 RELATED PARTIES**

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

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

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

	<b>31 December 2013</b>	<b>31 December 2012</b>
Due from banks:		
- Other related parties <sup>(1)</sup>	128,551	129,247
Loans and advances to customers:		
- Other related parties <sup>(2)</sup>	1,022,801	781,527
Trading securities:		
- Shareholder <sup>(3)</sup>	113,207	483,571
Investment securities ("Held to maturity")		
- Shareholder <sup>(4)</sup>	241,334	300,349
Funds borrowed		
- Other related parties <sup>(5)</sup>	13,317,558	7,072,719
Other liabilities		
- Other related parties	-	45

(1) Average interest rate for due from banks is 5.78% (2012: 2.07%)

(2) Average interest rate for loans and advances to customers is 4.25% (2012: 5.43%)

(3) Average interest rate for trading securities is 8.78% (2012: 8%)

(4) Average interest rate for investment securities is 8.94% (2012: 9.5%)

(5) Average interest rate for funds borrowed is 0.96% (2012: 0.96%)

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

	<b>31 December 2013</b>	<b>31 December 2012</b>
Interest income on investment and trading securities:		
- Shareholder	3,472	70,610
Interest income on loans and advances to customers:		
- Other related parties	40,766	34,464
Interest expense on funds borrowed:		
- Other related parties	31,683	37,919
Operating expenses (taxes paid)		
-Other related parties	2,412	36,317

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**26 RELATED PARTIES** *(continued)*

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

	<b>31 December 2013</b>	<b>31 December 2012</b>
Salaries and other short-term employee benefits	1,687	910
Post employment benefits	-	199

**27 SUBSEQUENT EVENTS**

None.