



**Bankpozitif Kredi ve Kalkınma
Bankası Anonim Şirketi**

**Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information
For the Six-Month Period Ended
30 June 2016**

26 August 2016

This report contains 2 pages of independent auditors' report on review of condensed consolidated interim financial information and 37 pages of condensed consolidated financial statements and notes to the condensed consolidated interim financial information.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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Independent auditors' report on review of interim financial information

To the Board of Directors of

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2016, the condensed consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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



Conclusion

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

Emphasis of Matter

We draw attention to Note 17 to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Bank by non-performing corporate customer the Bank. Our opinion is not qualified in respect of this matter.

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

Alper Güvenç SMMM
Partner

10 October 2016
İstanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Financial Position****As at 30 June 2016***(Currency - In thousands of Turkish Lira)*

		Reviewed	Audited
		30 June	31 December
	<i>Note</i>	2016	2015
ASSETS			
Cash and balances with central banks		25	130
Due from banks and financial institutions		8,384	17,386
Interbank and other money market placements		5,502	114,391
Reserve deposits at central banks		138,912	157,901
Trading assets		6,959	10,048
Investment securities		70,151	55,108
Loaned securities		6,609	14,550
Loans and finance lease receivables	4	1,237,368	1,271,093
Property and equipment		1,974	2,415
Intangible assets	5	8,299	9,186
Deferred tax assets		11,725	16,633
Investment property	6	57,296	57,292
Other assets		36,520	63,361
Total assets		1,589,724	1,789,494
LIABILITIES			
Other money market deposits		6,572	14,508
Trading liabilities		10,035	31,620
Funds borrowed	7	636,144	681,253
Debt securities issued	8	526,168	647,366
Other liabilities		50,908	60,155
Provisions		5,887	9,242
Current tax liabilities		-	61
Deferred tax liabilities		-	61
Total liabilities		1,235,714	1,444,266
EQUITY			
Share capital and share premium	9	379,114	379,114
Legal reserves		16,168	16,168
Available-for-sale reserve, net of tax	9	4,291	2,874
Accumulated losses		(45,563)	(52,928)
Total equity		354,010	345,228
Total equity and liabilities		1,589,724	1,789,494

The accompanying notes are an integral part of this condensed consolidated interim financial information.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss****For the six-month period ended 30 June 2016***(Currency - In thousands of Turkish Lira)*

		Reviewed 1 January – 30 June 2016	Reviewed 1 April – 30 June 2016	Reviewed Re-presented 1 January – 30 June 2015	Reviewed Re-presented 1 April – 30 June 2015
	Note				
Continuing Operations					
Interest income					
Interest income on loans and finance leases		57,152	28,076	59,118	30,885
Interest income on deposits with other banks and financial institutions		837	528	2,433	882
Interest income on investment securities		2,543	932	4,294	1,406
Interest income on interbank and other money market placements		2,976	784	480	476
Other interest income		3,326	1,095	11,296	5,770
Total interest income		66,834	31,415	77,621	39,419
Interest expense					
Interest expense on other money market deposits		(458)	(183)	(846)	(360)
Interest expense on funds borrowed		(11,947)	(6,570)	(12,159)	(7,062)
Interest expense on debt securities issued		(19,276)	(8,380)	(28,742)	(14,454)
Other interest expense		(6,020)	(2,788)	(3,250)	(1,959)
Total interest expense		(37,701)	(17,921)	(44,997)	(23,835)
Net interest income		29,133	13,494	32,624	15,584
Fees and commission income		3,487	1,639	3,571	2,217
Fees and commission expense		(377)	(172)	(267)	(210)
Net fee and commission income		3,110	1,467	3,304	2,007
Net trading income and foreign exchange gain, net		1,925	1,634	(2,275)	(504)
Other operating income	14	11,697	10,353	3,211	371
Total operating income		45,865	26,948	36,864	17,458
Net impairment loss on financial assets	4	(5,317)	(4,448)	(3,901)	(1,947)
Personnel expenses		(13,229)	(6,063)	(13,411)	(6,910)
Depreciation and amortisation		(1,846)	(908)	(2,346)	(1,167)
Administrative expenses		(9,603)	(5,167)	(9,021)	(5,183)
Taxes other than on income		(1,191)	(932)	(1,305)	(590)
Other expenses		(2,433)	(173)	(1,314)	(593)
Total operating expenses		(28,302)	(13,243)	(27,397)	(14,443)
Profit before income tax		12,246	9,257	5,566	1,068
Income tax		(4,516)	(930)	(1,651)	34
Profit from continuing operations		7,730	8,327	3,915	1,102
Discontinued operations					
Profit from discontinued operation, net of tax	15	-	-	1,892	907
Profit		7,730	8,327	5,807	2,009

The accompanying notes are an integral part of this condensed consolidated interim financial information.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the six-month period ended 30 June 2016***(Currency - In thousands of Turkish Lira)*

	Reviewed 1 January– 30 June 2016	Reviewed 1 January– 30 June 2015
Profit for the period	7,730	5,807
Other comprehensive income		
<i>Items that will never be reclassified to profit or loss</i>		
Remeasurement of employee termination benefits	(456)	-
Deferred tax	91	-
	(365)	-
<i>Items that are or may be reclassified to profit or loss</i>		
Foreign currency translation differences for foreign operations	-	1,126
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	2,136	420
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(364)	(2,521)
Income tax	(355)	420
	1,417	(555)
Other comprehensive income/(loss) for the period from continued operations, net of income tax	1,052	(555)
Total comprehensive income for the period	8,782	5,252

The accompanying notes are an integral part of this condensed consolidated interim financial information.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ
Condensed Consolidated Interim Statement of Changes in Equity
For the six-month period ended 30 June 2016
(Currency - In thousands of Turkish Lira)

	Note	Share capital	Share premium	Adjustment to share capital	Legal reserves	Available-for-sale reserve, net of tax	Currency translation reserve	Accumulated Losses	Total
At 1 January 2015		337,292	20,121	21,701	16,168	4,109	(42,368)	69,695	426,718
Total comprehensive income for the period		-	-	-	-	-	-	5,807	5,807
Other comprehensive income		-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	-	-	-	1,126	-	1,126
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	(1,681)	-	-	(1,681)
Total other comprehensive income		-	-	-	-	(1,681)	-	-	(555)
Total comprehensive income for the period		-	-	-	-	(1,681)	1,126	5,807	5,252
Contributions by and distributions to owners		-	-	-	-	-	-	-	-
Dividends to equity holders		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Transfers		-	-	-	-	-	-	-	-
At 30 June 2015		337,292	20,121	21,701	16,168	2,428	(41,242)	75,502	431,970
At 1 January 2016		337,292	20,121	21,701	16,168	2,874	-	(52,928)	345,228
Total comprehensive income for the period		-	-	-	-	-	-	7,730	7,730
Other comprehensive income		-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	-	-	-	-	-	-
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	(365)	(365)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	1,417	-	-	1,417
Total other comprehensive income		-	-	-	-	1,417	-	(365)	1,052
Total comprehensive income for the period		-	-	-	-	1,417	-	7,365	8,782
Contributions by and distributions to owners		-	-	-	-	-	-	-	-
Dividends to equity holders		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Transfers		-	-	-	-	-	-	-	-
At 30 June 2016		337,292	20,121	21,701	16,168	4,291	-	(45,563)	354,010

The accompanying notes are an integral part of this condensed consolidated interim financial information.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Cash Flows****For the six-month period ended 30 June 2016***(Currency - In thousands of Turkish Lira)*

	Reviewed	Reviewed
	1 January –	Re-presented
<i>Note</i>	30 June 2016	1 January –
		30 June 2015
Cash flows from operating activities		
Interest received	51,573	74,753
Interest paid	(40,875)	(40,664)
Fees and commissions received	2,500	4,978
Fees and commissions paid	(377)	(267)
Trading income	674	621
Recoveries from non-performing loans	709	5,357
Cash payments to employees and other parties	(20,078)	(20,905)
Cash received from other operating activities	457	3,211
Cash paid for other operating activities	(7,471)	(368)
Income taxes paid	(61)	(183)
	(12,949)	26,533
Change in banks and financial institutions	(25)	(302)
Change in trading assets	2,547	(3,158)
Change in reserve deposits at central banks	19,196	(52,669)
Change in loans and finance lease receivables	(17,487)	(146,419)
Change in other assets	39,491	(5,033)
Change in interbank and other money market deposits	(7,919)	(4,254)
Change in other liabilities	(8,851)	11,185
Net cash provided by / (used in) operating activities	14,003	(174,117)
Cash flows from investing activities		
Purchases of investment securities	(25,046)	(48,152)
Proceeds from sale and redemption of investment securities	18,534	81,193
Purchases of property and equipment	(162)	(283)
Proceeds from the sale of premises and equipment	81	70
Purchases of intangible assets	(412)	(449)
Net cash provided by / (used in) investing activities	(7,005)	32,379
Cash flows from financing activities		
Proceeds from funds borrowed	504,498	534,107
Repayment of funds borrowed	(512,405)	(328,877)
Proceeds from debt securities issued	51,381	154,960
Repayment of debt securities issued	(168,437)	(243,169)
Net cash provided by / (used in) financing activities	(124,963)	117,021
Effect of net foreign exchange difference on cash and cash equivalents	(10)	3,816
Net decrease in cash and cash equivalents	(117,975)	(20,901)
Cash and cash equivalents at 1 January	131,886	122,755
Cash and cash equivalents at 30 June	13,911	101,854

The accompanying notes are an integral part of this condensed consolidated interim financial information.

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BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 June 2016

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("BankPozitif" or "the Bank") was incorporated in Turkey on 9 April 1999 as Toprak Yatırım Bankası A.Ş. as a subsidiary of Toprakbank A.Ş. On 30 November 2001, Toprakbank A.Ş. (the previous parent company) was taken over by the Saving Deposit Insurance Fund ("SDIF"). As a result, SDIF became the controlling shareholder of Toprak Yatırım Bankası A.Ş.. C Faktoring A.Ş. acquired 89.92% of the Bank's shares on 1 November 2002 in an auction from SDIF. Following the acquisition, the name of the Bank was changed as C Kredi ve Kalkınma Bankası A.Ş.. C Faktoring A.Ş. and its nominees increased their shareholding to 100% by share capital increases and by purchasing other third party minority shareholders' shares.

Negotiations of the new shareholding structure of the Bank which began in 2005 were finalised and a final share subscription agreement was signed on 13 December 2005. Under this agreement, Bank Hapoalim B.M. ("Bank Hapoalim") acquired a 57.55% stake in BankPozitif by means of a capital injection to be made through Tarshish-Hapoalim Holdings and Investments Ltd. ("Tarshish"), a wholly-owned subsidiary of Bank Hapoalim. On 23 December 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş.. Legal approvals concerning the new partnership have been obtained from Israeli and Turkish authorities in 2006 and extraordinary general assembly of the Bank was convened on 31 October 2006.

On 8 April 2008, Tarshish's share in BankPozitif increased to 65.00% by way of share capital increase. On 7 April 2009, Tarshish acquired 4.825% shares of BankPozitif from C Faktoring A.Ş. and Tarshish's share in BankPozitif increased to 69.83%.

As at 30 June 2016, 69.83% (31 December 2015 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2015 – 30.17%) of the shares belong to C Faktoring A.Ş.

The registered head office address of the Bank is located at Rüzgarlıbahçe Mah. Kayın Sok. No: 3 Yasa Blokları Kavacık 34805 Beykoz – Istanbul / Turkey.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 June 2016

(Currency - In thousands of Turkish Lira)

1. Corporate information (continued)

Nature of activities of the Bank / Group

The Bank carries out its activities as corporate and retail banking. The Bank's corporate services mainly include corporate lending, project finance, trade finance and financial leasing. In retail banking, the Bank mainly provides retail lending products such as consumer loans, home equity, mortgages, and vehicle to its customers. Apart from lending business, the Bank provides insurance and investment products to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets and from its counterparties.

C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş. ("C Bilişim") is specialised in software development and provides other technological support services to the financial sector including the Bank and its subsidiaries.

On 20 October 2015, an agreement between the bank and Eurasian Bank JSC has been signed regarding the sale of shares of the bank's subsidiary JSC BankPozitiv Kazakhstan. As of 30 December 2015, required approvals have been obtained from the regulatory institution of Kazakhstan and the shares of JSC BankPozitiv Kazakhstan have been transferred to EurasianBank JSC with a sale amount of USD 26,265,782 (TL 75,245,530).

As at 30 June 2016, the Bank provides services through its head office. As at 30 June 2016, the number of employees for the Bank and its consolidated subsidiaries are 127 and 2, respectively (31 December 2015 – 133 and 2).

For the purposes of the condensed consolidated interim financial information, the Bank and its consolidated held for sale subsidiaries are referred to as the "Group".

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 30 June 2016 and 31 December 2015 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			30 June 2016	31 December 2015
C Bilişim	Istanbul/Turkey	Software development and technology	100	100

2. Basis of preparation

The interim consolidated condensed financial statements as of 30 June 2016 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statement and should be read in conjunction with annual consolidated financial statements of the Group for the year ended 31 December 2015.

In preparation of the interim condensed consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of June 2016, noted below.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 June 2016

(Currency - In thousands of Turkish Lira)

2. Basis of preparation (continued)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the six month period ended 30 June 2016, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

3. Use of judgements and estimates

In preparing these condensed consolidated interim financial statements, the bank management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.

Measurement of fair values

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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in Note 13 – fair value of financial instruments.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***4. Loans and finance lease receivables**

30 June 2016	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	260,997	779,552	77,267	1,117,816
Consumer loans	78,459	-	5,337	83,796
Total loans	339,456	779,552	82,604	1,201,612
Non-performing loans and finance lease receivables	68,910	-	-	68,910
Less: Specific reserve for impairment	(18,289)	-	-	(18,289)
Less: Portfolio reserve for impairment	(14,865)	-	-	(14,865)
	375,212	779,552	82,604	1,237,368

31 December 2015	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	253,773	837,237	53,101	1,144,111
Consumer loans	90,249	-	7,204	97,453
Total loans and finance lease receivables	344,022	837,237	60,305	1,241,564
Non-performing loans and finance lease receivables	61,511	-	-	61,511
Less: Specific reserve for impairment	(15,681)	-	-	(15,681)
Less: Portfolio reserve for impairment	(16,301)	-	-	(16,301)
	373,551	837,237	60,305	1,271,093

As at 30 June 2016, loans and finance lease receivables with floating rates are TL 250 (31 December 2015 – TL 384) and fixed interest rates are TL 1,201,362 (31 December 2015 – TL 1,241,180).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***4. Loans and finance lease receivables (continued)**

Movements in non-performing loans and finance lease receivables:

	30 June 2016	31 December 2015
Non-performing loans and finance lease receivables at 1 January	61,511	101,657
Sale effect of JSC BankPozitiv Kazakhstan	-	(20,085)
Additions to non-performing loans and finance lease receivables	15,016	37,096
Recoveries	(709)	(40,484)
Write-offs ⁽¹⁾	(6,908)	(16,673)
Non-performing loans and finance lease receivables at the end of period	68,910	61,511

⁽¹⁾ TL 6,908 of non-performing loans and finance lease receivables were sold to an asset management company as at 30 June 2016 (31 December 2015 - TL 16,673).

Movements in the reserve for possible loan and finance lease receivables losses:

	30 June 2016	31 December 2015
Reserve at the beginning of the year	31,982	58,650
Provision net of recoveries	5,317	5,544
- <i>Provision for loan and finance lease receivables impairment</i>	7,748	11,648
- <i>Recoveries</i>	(2,431)	(6,104)
Write-offs ⁽¹⁾	(4,145)	(10,699)
Sale effect of JSC BankPozitiv Kazakhstan	-	(21,513)
Reserve at the end of the period	33,154	31,982

⁽¹⁾ Write-offs include TL 4,145 (31 December 2015 - TL 10,699) of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans to an asset management amounting to TL 6,908 (31 December 2015 - TL 16,673) as at 30 June 2016.

5. Intangible assets

Intangible assets consist of purchased software and developed software.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***6. Investment property**

In 2014, the Group classified its Hotel in Gaziantep, previously recorded in Other Assets under Assets Held for Resale, as Investment Property in terms of change in right of repurchase. The Group has started to earn rental income from this property and therefore in accordance with IAS 40, the Group has presented the Hotel as Investment Property.

Accordingly, the Hotel was valued by an independent appraiser. According to the report dated 3 August 2015 prepared by a real estate appraisal company, which is included in the list to provide valuation service by the Capital Markets Board of Turkey ("CMB"), the fair value of hotel is determined as TL 56,155 for shares of the land and building owned by the Group determined according to the discounted cash flow projections approach. Investment property comprises a commercial properties that are leased to third parties. Lease contains an initial non-cancellable period of 10 years, with annual increases in rents indexed to consumer prices. Rental income from investment property amounting to TL 279 has been recognised in other income.

The fair values of the Group's investment property are categorised into Level 3 of the fair value hierarchy.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	1 January – 30 June 2016	1 January – 31 December 2015
Balance at 1 January	57,292	56,155
Reclassification from other assets	-	-
Additions	4	1,137
<i>Accounted in other income</i>		
Change in fair value	-	-
Total	57,296	57,292

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	30 June 2016		31 December 2015	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term⁽¹⁾				
Fixed interest	46,117	363,571	10,044	237,995
Floating interest	-	-	-	29,104
Long-term⁽¹⁾				
Fixed interest	-	172,155	-	335,393
Floating interest	-	54,301	-	68,717
Total	46,117	590,027	10,044	671,209

⁽¹⁾ Based on original maturities.

Floating rate borrowings have interest rate repricing periods of 1 to 6 months.

As at 30 June 2016 and 31 December 2015, funds borrowed are unsecured.

As at 30 June 2016 and 31 December 2015, the Group has not had any defaults of principal, interest or redemption amounts.

8. Debt securities issued

	30 June 2016		31 December 2015	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Debt securities issued at amortised cost	87,878	438,290	210,233	437,133
Total	87,878	438,290	210,233	437,133

9. Capital and reserves

	30 June 2016	31 December 2015
Number of common shares, TL 0.1 (in full TL), par value (Authorised and issued)	3.372.923.500	3.372.923.500

Share capital and share premium

As at 30 June 2016 and 31 December 2015, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 June 2016		31 December 2015	
	Amount	%	Amount	%
Tarshish	235,515	69.83	235,515	69.83
C Faktoring A.Ş.	101,777	30.17	101,777	30.17
	337,292	100.00	337,292	100.00
Share premium	20,121		20,121	
Restatement effect	21,701		21,701	
Share capital and share premium	379,114		379,114	

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9. Capital and reserves (continued)

There are no rights, preferences and restrictions on the distribution of dividends and the repayment of capital.

Legal reserves

The legal reserves 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.

Other reserves

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations in year 2015.

The Bank had signed a SPA with Eurasian Bank JSC for the sale of the Bank's 100% owned foreign subsidiary, JSC BankPozitiv Kazakhstan.

The sale transaction has been approved by Kazakhstan authorities on 30 December 2015 and JSC BankPozitiv Kazakhstan shares have been transferred and registered officially to Eurasian Bank JSC.

Following to the completion of this sale transaction the net investment hedge reserve of previous periods reclassified into profit or loss amounting to TL 32,936 which was recognised and presented in net trading income and foreign exchange gain as of 31 December 2015.

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The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (31 December 2015 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial information, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans and finance lease receivables, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at period-end and relating expense and income for the period are as follows:

	Shareholders		Directors and key management personnel		Others	
	2016	2015	2016	2015	2016	2015
Loans and finance lease receivables						
At 1 January	-	-	-	1	-	-
At end of the period/year	-	-	35	-	-	-
Interest income (*)	-	-	3	-	-	-

As at 30 June 2016, no provisions have been recognised in respect of loans and finance lease receivables given to related parties (31 December 2015 – none).

	Shareholders		Directors and key management personnel		Others	
	2016	2015	2016	2015	2016	2015
Funds borrowed						
At 1 January	218,514	185,851	-	-	2,920	70,926
At end of the period/year	174,093	218,514	-	-	2,939	2,920
Interest expense (*)	(2,699)	(3,171)	-	-	(35)	(1,108)

(*) Interest income and interest expense in the above tables for 2015 represents the balances as of 30 June 2015.

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Other balances with related parties:

Related party		Due from banks	Deposits	Other assets	Other liabilities	Non-cash loans
Shareholders	30 June 2016	-	-	-	156	23,178
	31 December 2015	-	-	-	94	23,727
Directors and key management personnel	30 June 2016	-	-	-	-	-
	31 December 2015	-	-	-	-	-
Others	30 June 2016	-	-	-	8,945	18
	31 December 2015	-	-	-	16	1,181

Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expense	Other operating income	Other operating expense
Shareholders	30 June 2016	-	-	-	1	-
	30 June 2015	-	-	(15)	16	-
Directors and key management personnel	30 June 2016	-	-	-	-	-
	30 June 2015	-	-	-	2	-
Others	30 June 2016	-	-	(98)	4	-
	30 June 2015	-	-	(55)	1	-

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 3,114 (30 June 2015 – TL 4,444) comprising salaries and other benefits.

11. Commitments and contingencies

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	30 June 2016	31 December 2015
Letters of guarantee	501,528	630,377
Letters of credit	53,805	67,801
Other guarantees	14,184	21,422
Commitments	42,934	29,095
Total non-cash loans	612,451	748,695

12. Financial risk management

Strategy in using financial instruments

BankPozitif's risk approach is to achieve sound and sustainable low risk profile on consolidated basis, through the identification, measurement and monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Group is to manage the credit risk effectively, to eliminate the market risk by not carrying positions and intelligent handling of operational risks supporting the group in achieving its strategic goals. With this understanding, the Group has given priority to create a risk aware culture in which all functions of the Group understand the risks being exposed; to have well-defined areas of responsibilities; to identify and map the risks and controls of each process and to have prudent procedures for the new products and applications.

BankPozitif's basic risk classifications and policies can be summarised as follows:

- well managing the credit risk through a high standardised credit risk management,
- minimizing market risk with the avoidance of currency, interest rate and maturity positions,
- identifying, assessing, monitoring and controlling of the operational risks inherent in products, activities, systems and material processes.

In the credit risk management process of the Group, sound risk management practices are targeted in compliance with Basel II recommendations.

In accordance with the BankPozitif's market risk management strategy; the Group aims not to carry market risk positions and intends to create matching assets and liabilities to eliminate asset liability management risks i.e. maturity risk and interest rate sensitivity risk.

Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size with a conservative trade limit and most of the securities are floating rate notes.

The Bank declares its risk appetite and tolerance levels for the primary risk areas on a Board approved policy since 2009.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Group implements all necessary risk management techniques in compliance with the related regulatory requirements both in Turkey and Israel. Board of Directors follows its duties not only by itself but also through audit committee, which is composed of two board members and responsible for the supervision of the efficiency and adequacy of BankPozitif's internal systems, namely internal control, risk management, internal audit and compliance. The audit committee also oversees the proper functioning of these systems and the accounting and reporting systems and is responsible for the integrity of the information produced.

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(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Strategy in using financial instruments (continued)

All risk limits are set by the Board of Directors and reviewed on a regular basis.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the risk policy of the Group, including that of all its subsidiaries, regarding exposure to various risks (credit risks, market risks, operational risks),
- to manage and guide all the activities of internal systems directly/through committees,
- to approve new business lines, products or activities that would have a substantial effect on activities of the Group,
- The Group manages its exposure to all types of risks through the asset and liability management committee ("ALCO") and executive committee, set by Board of Directors and comprising members of senior management, and a representative of main shareholder (board member/consultant of Board of Directors nominated by Bank Hapoalim) and also through limits set on the credit, treasury and asset liability management activities of the Group. These limits are approved and quarterly reviewed by Board of Directors and ALCO and executive committee supervise the compliance with the limits,
- Permanent learning program for the Board of Directors is in place from the beginning of 2011 including the subjects risk management, corporate governance in general and corporate governance in the financial sector, Basel II, reporting standards (IFRS and BRSA) and audit,
- In summary, in order not to be exposed to liquidity, interest rate and foreign currency risk, the Group aims to keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Group does not prefer to take speculative positions on currency, interest rate and maturity that might create risk to the Group due to changes in the prices or mismatch of assets and liabilities.

Credit risk

- Credit risk refers to the risk that a contractual partner defaults on its contractual obligations or does not deliver in full accordance with the conditions of contract,
- As the focus of BankPozitif is defined as credit activities, credits are the most significant part of its activities and thus managed meticulously. BankPozitif follows a strict credit policy which is reviewed and approved by Board of Directors at certain intervals and whenever necessary. The process for approving, amending and renewing is clearly regulated together with collateral requirements. All facilities are assessed prior to approval via a series of evaluation meetings to ensure that the strict criteria laid out in the Group is adhered to regarding the issues like sector, sub-sector, collateral, maturity, project type etc.,
- To avoid the default risks to the best possible extend, the Group applies a well-defined "credit allocation process" and afterwards monitoring of the portfolio is being executed using a number of precautionary actions by relevant functions.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)**

30 June 2016	Loans and advances to customers	Loans and advances to banks	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	1,130,136	8,384	76,760	612,451
Past due but not impaired	71,476	-	-	-
Individually impaired	68,910	-	-	-
Allowance for impairment				
- Individual impairment	(18,289)	-	-	-
- Collective impairment	(14,865)	-	-	-
	1,237,368	8,384	76,760	612,451
31 December 2015	Loans and advances to customers	Loans and advances to banks	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	1,175,481	17,386	69,658	748,695
Past due but not impaired	66,083	-	-	-
Individually impaired	61,511	-	-	-
Allowance for impairment				
- Individual impairment	(15,681)	-	-	-
- Collective impairment	(16,301)	-	-	-
	1,271,093	17,386	69,658	748,695

The Group regards a loan and advance or a debt security as impaired in the following circumstances.

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A retail loan is overdue for 90 days or more.

Loans that are subject to a collective provision are not considered impaired.

Loans and investment debt securities that are past due but not impaired

Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. The amounts disclosed exclude assets measured at fair value through profit or loss.

Bankpozitif manages its corporate and retail credit portfolio as per following main principles;

Creating credit risk awareness throughout the Group

Senior management is responsible for putting the policies into practice approved by Board of Directors and identifying and managing of credit risk is the joint concern of all staff of the Bank.

The day-to-day management of credit risk is devolved to individual business units, such as the loans and risk monitoring departments of corporate and retail business, which perform regular appraisals of quantitative and qualitative information relating to counterparty credit with respect to their loan policies and procedures.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Credit risk (continued)

Having a reliable credit allocation function

Credit approval authorities and their approval limits are also decided by board based on a combination of “rating” and “being new/existing customers” pillars.

Credit approval processes for both retail and corporate loans are centralised. Retail and corporate loans and risk monitoring departments are organised independently from the sales and marketing departments. The retail and corporate loans and risk monitoring departments do not have any sales targets and are solely responsible for the evaluation and allocation of new loans and monitoring the performance of the loan portfolio. Loans and risk monitoring departments are not included in any phase of the pricing of loans.

All the credit marketing, allocation and follow up stages are defined in corporate and retail loan policies, which are approved and reviewed regularly by Board of Directors.

Within the light of “no exception policy” applied in the Group, the compliance of loan disbursements with internal and legal regulations are checked by internal control unit prior to disbursement.

Risk limits

There are risk limits, set by Board of Directors, describing relevant credit limits such as single borrower limit, group exposure limit, sectorial limit, credit approval authorities and their approval limits. Risk limits are determined by comparing Turkey and Israel legislations and the most conservative limitation is taken as benchmark while determining the internal limit.

Although the Bank is not subject to local regulation in terms of credit limits (due to being an investment bank), the Bank set internal credit limits. Single borrower limit is set as 15% (it is lower than the regulatory requirement of 25%) of total equity. In addition to this, the limit for group of borrower is set as 25% of total equity.

Sectoral distribution of loans is monitored on a daily and monthly basis and sectoral analysis of those loans is made in accordance with their risk concentration every year. The Group set a limit on single sector concentration by 20% of total loan book.

In addition to sectorial and borrower limits, the Group has limits on own risk groups’ indebtedness as 10% of total equity. Furthermore a limit on six largest borrowers and groups is set as 135% of total equity.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

As at 30 June 2016, the share of the Group’s loan to its top 20 credit customers in its total loan portfolio is 64% (31 December 2015 – 69%).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Credit risk (continued)

Measuring risk

The Bank uses two internally developed rating systems i.e. borrower rating system and facility rating system. Borrower rating is the measure of borrower's creditworthiness that is mapped by the bank to a risk grade and then to a PD (probability of default). Facility rating assesses the risk of a facility, taking into account associated collateral and guarantees and provides view for the recovery of the risk. Both systems have been validated by Bank Hapoalim's credit risk modelling department over a set of sample corporate financials/facilities.

Facility rating system was developed in 2008 and is being used for the corporate loan customers. This module, differently from the borrower rating module as explained above, rates the transaction instead of the corporate customer and reflects the expected loss amount in case of a default by taking into account collateral types which are subject to coefficients.

Expected loss of credit portfolio is calculated regularly by the Bank. In the calculation, PD values of Group for each rating category is determined by simulating PD's of an international rating institution to the Group's rating classes using "central tendency of the Group" since the Group is lacking such historical data. Central tendency factor is calculated by correlating sectoral non-performing loans ratios of banking sector to Group values.

Both rating systems are being used in credit decisions, the first one giving the indications for borrower's repayment capacity, while the second one for facility's repayment capacity. Requirement of facility rating of BB or higher for the new credit clients is the main principle.

Regarding retail business, decision trees developed internally (and validated by Experian Scorex) are being used to evaluate retail applicants. G3 scores of Credit Bureau is used in the classification of retail customers.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk*

At certain intervals, FX positions of credit customers are analysed using certain sensitivity scenarios and indirect credit risk assumed is measured. Risk management department controls structure of portfolio by product type, maturity, sector, geographical concentration, rating, currency, collateral and borrower/group of borrowers. The department also monitors concentration levels of the portfolio using internationally accepted criterion, makes recommendations and reports its findings at appropriate managerial levels. Additionally, it calculates sectorial diversification of the loan portfolio in accordance with Herfindahl-Herschman Concentration Index. Bank's credit portfolio, either retail or corporate, is monitored through several analysis and stress tests by predetermined scenarios to measure profit or loss and results are reported at appropriate managerial levels.

Segment information by sectorial concentration for cash loans, finance lease receivables and non-cash loans is as follows:

30 June 2016	Cash loans	Non-cash loans	Total
Electric production and supply	280,698	104,767	385,465
Other commercial services	165,410	24,109	189,519
Holding companies	173,863	2,335	176,198
Public works and civil engineering	89,925	83,843	173,768
Building contractor (general and special trade)	80,460	29,056	109,516
Transportation	88,059	16,087	104,146
Metal and by-products	19,896	74,644	94,540
Tourism and entertainment	81,645	11,896	93,541
Other financial institutions	35,661	50,226	85,887
Consumer loans	83,796	-	83,796
Personal other services	23,630	48,037	71,667
Trade	7,416	63,240	70,656
Textile and clothing	23,514	7,294	30,808
Commercial, mortgage, investment finance banks	-	23,156	23,156
Electrical and electronic equipment	-	12,902	12,902
Machinery and equipment	2,804	7,673	10,477
Food, beverage and tobacco industries	-	8,505	8,505
Chemical and Oil Products	7,268	1,117	8,385
Agriculture and forestry	2,800	-	2,800
Others	4,810	43,564	68,122
Total performing loans	1,171,655	612,451	1,803,854
Loans in arrears	68,910	-	68,910
Interest accruals	29,957	-	29,957
Provision for possible loan losses	(33,154)	-	(33,154)
Total loans	1,237,368	612,451	1,869,567

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

31 December 2015	Cash loans	Non-cash loans	Total
Electric production and supply	258,288	143,169	401,457
Other commercial services	171,051	33,676	204,727
Holding companies	170,450	19,035	189,485
Public works and civil engineering	99,860	75,936	175,796
Tourism and entertainment	135,724	11,451	147,175
Building contractor (general and special trade)	74,018	39,324	113,342
Consumer loans	105,901	-	105,901
Other financial institutions	51,369	52,136	103,505
Metal and by-products	33,465	57,489	90,954
Transportation	66,860	13,087	79,947
Trade	105	76,383	76,488
Personal other services	16,115	50,878	66,993
Commercial, mortgage, investment finance banks	-	31,473	31,473
Textile and clothing	23,421	7,333	30,754
Chemical and Oil Products	-	12,977	12,977
Electrical and electronic equipment	-	12,411	12,411
Machinery and equipment	3,575	6,137	9,712
Food, beverage and tobacco industries	-	9,280	9,280
Agriculture and forestry	2,800	22	2,822
Others	6,755	96,498	103,253
Total performing loans	1,219,757	748,695	1,968,452
Loans in arrears	61,511	-	61,511
Interest accruals	21,807	-	21,807
Provision for possible loan losses	(31,982)	-	(31,982)
Total loans	1,271,093	748,695	2,019,788

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

Total collateralisation coverage of cash and non-cash loans are 70% as at 30 June 2016 (31 December 2015 – 76%).

The following table sets out the collateralisation of Bank's cash and non-cash loan portfolio, including finance lease receivables:

	30 June 2016	31 December 2015
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	46,313	46,313
Secured by guarantee	8,000	732
Unsecured	14,597	14,466
Total	68,910	61,511
Cash loans (including financial lease receivables) except loan in arrears		
Secured by mortgages	353,871	385,263
Secured by guarantee	250,597	308,033
Secured by pledge	155,454	144,367
Secured by assignment and cheques	133,724	118,426
Secured by cash	1,103	1,108
Unsecured	306,863	284,367
Total	1,201,612	1,241,564
Non-cash loans		
Secured by guarantee	302,582	394,812
Secured by assignment and cheques	40,125	93,349
Secured by mortgages	18,040	42,521
Secured by cash	5,591	6,050
Secured by pledge	-	8,499
Unsecured	246,113	203,464
Total	612,451	748,695

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Liquidity risk**

Liquidity risk is the probability of loss arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes (1) the inability to manage unplanned decreases or changes in funding sources (2) the failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments. There are risk limits set for liquidity risks as; ratio of total assets maturing within one month to total liabilities maturing within one month cannot be lower than 100% (It is set as 80% for foreign currency assets to liabilities). ALCO closely monitors daily, weekly and monthly liquidity position of the bank and has the authority to take actions where necessary.

The Group uses various methods, including predictions of daily cash positions, and scenario analysis to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Risk management and treasury departments monitor daily liquidity gaps in all currencies.

Liquidity position of the Group is measured on monthly basis with three scenarios i.e. global scenario, local scenario and bank specific scenario which are run on TL positions, foreign currency positions and on a total basis. The scenarios aim to show the repayment capacity of the Group using only quasi cash assets against the liabilities of 1 month and 1 year periods. Since the Group has funding centred asset creating structure, the Group does not prefer to take any liquidity risk (monitored cumulatively) in any currency, in any point in any time as decided by the top management of the Group.

Generally, the Bank does not prefer to utilise liquidity from Interbank money markets and is in a net lender position in Interbank money markets.

The table on the next two pages analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at reporting date to contractual maturity date.

30 June 2016	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other money market deposits	6,572	6,583	-	6,583	-	-	-	-
Funds borrowed	636,144	671,006	-	49,473	201,490	209,914	112,635	97,494
Debt securities issued	526,168	568,674	-	34,393	10,923	67,616	455,742	-
Current account of loan customers ⁽¹⁾	43,619	43,996	-	33,251	9,831	-	914	-
	1,212,503	1,290,259	-	123,700	222,244	277,530	569,291	97,494

⁽¹⁾ Included in other liabilities.

31 December 2015	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other money market deposits	14,508	14,508	-	14,508	-	-	-	-
Funds borrowed	681,253	719,916	-	64,137	281,400	139,344	128,117	106,918
Debt securities issued	647,366	698,671	-	1,509	93,120	132,778	471,264	-
Current account of loan customers ⁽¹⁾	51,019	51,194	-	21,431	9,783	19,083	-	897
	1,394,146	1,484,289	-	101,585	384,303	291,205	599,381	107,815

⁽¹⁾ Included in other liabilities.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Liquidity risk (continued)**

30 June 2016	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Forward purchase contracts	14,507	59	-	-	-	-	14,566
Forward sale contracts	14,405	60	-	-	-	-	14,465
Currency swap purchases	152,436	9,071	-	-	7,428	-	168,935
Currency swap sales	154,164	10,698	-	-	9,338	-	174,200
Interest rate cap/floor purchase contracts	-	-	-	-	-	62,212	62,212
	335,512	19,888	-	-	16,766	62,212	434,378
31 December 2015	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Forward purchase contracts	127	53	-	-	-	-	180
Forward sale contracts	55	3,059	-	-	-	-	3,114
Currency swap purchases	175,790	1,428	-	-	-	-	177,218
Currency swap sales	51,385	56,442	26,472	39,632	7,577	-	181,508
Interest rate cap/floor purchase contracts	-	-	-	-	-	36,345	36,345
	227,357	60,982	26,472	39,632	7,577	36,345	398,365

Market risk

The Group has low risk appetite towards products which are subject to market risks. Market risks arise from open positions in interest rate, currency and equity/commodity prices, all of which are exposed to general and specific market movements.

The interest rate and exchange rate risks of the financial positions taken by the Bank related to financial position and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to value at risk (VaR) is taken into consideration by the standard method. As at 30 June 2016, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 65 (31 December 2015 – TL 55) for one day.

The Group has the principle not to carry equity/commodity portfolios which may cause losses based on the price changes.

The Group has a cautious approach towards derivatives transactions. In principle, derivatives are dealt only for the hedging of banking book. Trade or “market-making” in financial derivative instruments is not among the ordinary activities of the Group and possible only by specific authorisation of the Board of Directors and subject to VaR limits as well as stress scenarios.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and quarterly revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, create matching assets and liabilities and manage positive liquidity.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Group manages foreign currency risk by daily controls of financial planning and control department and treasury department; weekly ALCO meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank’s treasury department.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Currency risk (continued)**

The concentrations of assets, liabilities and off balance sheet items are as follows:

30 June 2016	USD	Euro	CHF	JPY	Others	Total
Assets						
Due from banks and financial institutions	1,413	653	223	45	164	2,498
Reserve deposits at central Banks	136,278	-	-	-	-	136,278
Loans and finance lease receivables	548,778	309,008	3,378	917	75	862,156
Other assets	25,400	1,502	3	-	-	26,905
Total assets	711,869	311,163	3,604	962	239	1,027,837
Liabilities						
Funds borrowed	324,129	265,898	-	-	-	590,027
Debt securities issued	438,290	-	-	-	-	438,290
Other liabilities	19,957	12,940	18	-	3	32,918
Total liabilities	782,376	278,838	18	-	3	1,061,235
Gross exposure	(70,507)	32,325	3,586	962	236	(33,398)
Off-balance sheet position						
Net notional amount of derivatives	70,537	(32,136)	(3,579)	(957)	(233)	33,632
Net exposure	30	189	7	5	3	234
31 December 2015	USD	Euro	CHF	JPY	Others	Total
Assets						
Due from banks and financial institutions	9,948	1,316	373	37	97	11,771
Reserve deposits at central Banks	152,564	-	-	-	-	152,564
Loans and finance lease receivables	624,525	301,213	5,772	1,589	114	933,213
Other assets	37,067	20,224	-	-	-	57,291
Total assets	824,104	322,753	6,145	1,626	211	1,154,839
Liabilities						
Funds borrowed	405,390	265,819	-	-	-	671,209
Debt securities issued	437,133	-	-	-	-	437,133
Other liabilities	17,872	23,598	19	-	2	41,491
Total liabilities	860,395	289,417	19	-	2	1,149,833
Gross exposure	(36,291)	33,336	6,126	1,626	209	5,006
Off-balance sheet position						
Net notional amount of derivatives	36,246	(33,263)	(6,390)	(1,646)	(209)	(5,262)
Net exposure	(45)	73	(264)	(20)	-	(256)

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Currency risk (continued)****Sensitivity analysis**

A 10% weakening of TL against the foreign currencies at 30 June 2016 and 30 June 2015 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

30 June 2016	Equity	Profit or loss
USD	3	3
EUR	19	19
Other currencies	2	2
	24	24
30 June 2015	Equity	Profit or loss
USD	(16,400)	(16,400)
EUR	(14)	(14)
Other currencies	15,825	15,825
	(589)	(589)

A 10% strengthening of the TL against the foreign currencies at 30 June 2016 and 30 June 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows.

The Group mainly funds its TL assets through its shareholders' equity and is not exposed to interest rate risk in TL assets and liabilities. Foreign currency assets of the Group give rise to interest rate risk as a result of mismatches or gaps in the amounts of foreign currency assets and liabilities and that mature or reprice in a given period. The Group prefers to protect itself from the effects created by the interest rate volatility and to have a match in interest rate risk. Interest rate sensitivity of the Bank is measured and monitored by duration analysis and PV01 analysis by risk management and financial planning and control departments accompanied by an interest sensitive gap representation to illustrate the negative and positive amounts of relevant time buckets.

The Group manages interest rate risk by the ALCO under the supervision of Board of Directors. The Group does not aim to generate income from the mismatch of interest rate sensitive assets and liabilities and nor make losses. Therefore the main objective of interest rate management is to eliminate interest rate sensitivity risk by creating matching assets and liabilities. In case of need, the Group utilises interest rate cap/floor agreements, interest rate swaps and setting limits on the positions, which can be taken by the Group's credit and treasury divisions to hedge the interest rate sensitivity of the Group.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 June 2016

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk on the basis of the remaining period at the reporting date to the repricing date:

30 June 2016	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non-interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	25	25
Due from banks and financial institutions	5,419	-	-	-	-	-	-	-	-	2,965	8,384
Interbank and other money market placements	5,502	-	-	-	-	-	-	-	-	-	5,502
Reserve deposits at central banks	138,912	-	-	-	-	-	-	-	-	-	138,912
Investment and loaned securities	35,446	12,647	21,667	7,000	-	-	-	-	-	-	76,760
Loans and finance lease receivables	159,505	96,031	216,386	114,166	236,635	99,981	58,493	63,702	152,511	39,958	1,237,368
Other assets	-	72	26	-	82	52	-	-	-	36,288	36,520
Total assets	344,784	108,750	238,079	121,166	236,717	100,033	58,493	63,702	152,511	79,236	1,503,471
Liabilities											
Other money market deposits	6,572	-	-	-	-	-	-	-	-	-	6,572
Funds borrowed	91,479	251,606	33,378	71,205	58,452	17,533	17,533	6,008	88,950	-	636,144
Debt securities issued	-	-	87,878	-	438,290	-	-	-	-	-	526,168
Other liabilities	22,709	9,831	-	-	-	-	-	914	-	17,454	50,908
Total liabilities	120,760	261,437	121,256	71,205	496,742	17,533	17,533	6,922	88,950	17,454	1,219,792
Financial position interest sensitivity gap	224,024	(152,687)	116,823	49,961	(260,025)	82,500	40,960	56,780	63,561	61,782	283,679
Off-balance sheet interest sensitivity gap, net	-	62,212	-	-	-	-	-	-	(62,212)	-	-
Total interest sensitivity gap	224,024	(90,475)	116,823	49,961	(260,025)	82,500	40,960	56,780	1,349	61,782	283,679

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12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

31 December 2015	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non-interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	130	130
Due from banks and financial institutions	9,034	-	-	-	-	-	-	-	-	8,352	17,386
Interbank and other money market placements	114,391	-	-	-	-	-	-	-	-	-	114,391
Reserve deposits at central banks	157,901	-	-	-	-	-	-	-	-	-	157,901
Investment securities	29,489	7,637	10,982	7,000	-	-	-	-	-	-	55,108
Loaned securities	-	9,676	4,874	-	-	-	-	-	-	-	14,550
Loans and finance lease receivables	177,834	129,753	101,993	163,400	218,023	155,898	76,899	48,853	168,910	29,530	1,271,093
Other assets	-	98	-	-	-	-	-	-	-	63,263	63,361
Total assets	488,649	147,164	117,849	170,400	218,023	155,898	76,899	48,853	168,910	101,275	1,693,920
Liabilities											
Other money market deposits	14,508	-	-	-	-	-	-	-	-	-	14,508
Funds borrowed	63,192	303,741	62,087	43,293	112,041	-	-	-	96,899	-	681,253
Debt securities issued	1,138	99,411	82,662	33,450	2,270	428,435	-	-	-	-	647,366
Other liabilities	5,688	9,786	-	19,077	-	-	-	-	896	24,708	60,155
Total liabilities	84,526	412,938	144,749	95,820	114,311	428,435	-	-	97,795	24,708	1,403,282
Financial position interest sensitivity gap	404,123	(265,774)	(26,900)	74,580	103,712	(272,537)	76,899	48,853	71,115	76,567	290,638
Off-balance sheet interest sensitivity gap, net	-	36,345	-	-	-	-	-	-	(36,345)	-	-
Total interest sensitivity gap	404,123	(229,429)	(26,900)	74,580	103,712	(272,537)	76,899	48,853	34,770	76,567	290,638

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)**

As at 30 June 2016 and 31 December 2015, the effective interest rate applied on balance sheet items summarised as follows:

30 June 2016 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	12.95	0.32	-	-	-	-
Interbank and other money market placements	12.20	-	-	-	-	-
Marketable securities (Investment and trading)	11.13	-	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	16.72	7.23	5.62	-	-	-
- Retail loans	17.29	8.97	8.28	7.43	6.26	11.28
Other money market deposits	7.50	-	-	-	-	-
Funds borrowed and debt securities issued	11.71	3.82	2.96	-	-	-
Current account of loan customers ⁽¹⁾	8.79	5.51	0.17	-	-	-
31 December 2015 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	15.32	0.35	-	-	-	-
Interbank and other money market placements	14.14	-	-	-	-	-
Marketable securities (Investment and trading)	11.87	-	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	16.44	7.15	5.71	-	-	-
- Retail loans	17.18	8.98	8.28	7.30	6.19	11.28
Other money market deposits	7.40	-	-	-	-	-
Funds borrowed and debt securities issued	11.77	3.92	3.12	-	-	-
Current account of loan customers ⁽¹⁾	8.83	2.84	0.15	-	-	-

⁽¹⁾ Included in other liabilities.

Internal capital adequacy assessment process

Within the risk management framework of the Bank, a comprehensive internal capital adequacy assessment process ("ICAAP") is performed which is reviewed and approved by Board of Directors since 2009.

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Interest rate sensitivity of the banking book is calculated as the difference of discounted cash flows of assets and liabilities. With this method, the future changes of interest rates and their effects on the cash flow of asset and liabilities are simulated and the influence of these changes on the interest income and equity of the Bank is assessed. The exercise is subject to PV01 and worst case scenario limit which are (1) 100 bps parallel shift of yield curves and (2) worst case shifts of yield curves which refer to parallel and non-parallel (flattening and steepening) shift of TL (500 bps) and foreign currency (200 bps) yield curves. Limits are determined on ALCO and Board of Directors levels and subject to Board of Directors monthly review.

Change at portfolio value/Total equity (%)	30 June 2016	31 December 2015
Local TL interest rate		
+500 bps	(4.55)	(5.06)
-400 bps	5.45	5.58
Foreign currency interest rate		
+200 bps EUR	0.96	0.70
-200 bps EUR	(0.03)	(0.38)
+200 bps USD	(2.63)	1.59
-200 bps USD	2.06	(0.22)

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The regulatory capital and the capital adequacy ratio declared by the Group as 30 June 2016 and 31 December 2015 is as follows:

	30 June 2016	31 December 2015
Amount subject to credit risk (I)	1,576,667	1,686,775
Amount subject to market risk (II)	6,025	102,800
Amount subject to operational risk (III)	104,107	146,475
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+III)	1,686,799	1,936,050
Shareholders' equity	337,716	331,129
Capital adequacy ratio	20.02%	17.10%

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2016***(Currency - In thousands of Turkish Lira)***13. Fair value of financial instruments****Financial instruments measured at fair value – fair value hierarchy**

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

30 June 2016	Level 1	Level 2	Level 3	Total
Trading assets	1,433	5,526	-	6,959
Investment and loaned securities	76,760	-	-	76,760
	78,193	5,526	-	83,719
Trading liabilities	-	10,035	-	10,035
	-	10,035	-	10,035
31 December 2015	Level 1	Level 2	Level 3	Total
Trading assets	4,190	5,858	-	10,048
Investment and loaned securities	62,632	-	-	62,632
	66,822	5,858	-	72,680
Trading liabilities	-	31,620	-	31,620
	-	31,620	-	31,620

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14. Operating segments

The Group has four reportable segments, namely headquarter and treasury, corporate banking, retail banking, and non-financial services (includes activities of C Bilşim), which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following table summarises the Group's operating segments details.

30 June 2016	Headquarter and Treasury	Corporate Banking	Retail Banking	Non-financial services	Total
Interest income	11,514	47,722	7,323	275	66,834
Interest expense	(36,999)	(702)	-	-	(37,701)
Internal transfer rate income/(expense)	43,303	(37,735)	(5,568)	-	-
Net interest income	17,818	9,285	1,755	275	29,133
Net fee and commission income / (expense)	(231)	3,435	(94)	-	3,110
Net trading income and foreign exchange gain, net	1,823	112	-	(10)	1,925
Other operating income (*)	-	11,613	12	72	11,697
Total operating income	19,410	24,445	1,673	337	45,865
Net impairment loss on financial and non-financial assets	-	(3,027)	(2,290)	-	(5,317)
Total operating expenses (unallocated + allocated)	(5,463)	(11,993)	(10,361)	(485)	(28,302)
Income from capital allocation	(8,432)	4,601	3,831	-	-
Profit / (loss) before income tax	5,515	14,026	(7,147)	(148)	12,246
Income tax	(4,577)	-	-	61	(4,516)
Net profit/(loss) for the period	938	14,026	(7,147)	(87)	7,730
Total assets	260,113	1,239,244	84,372	5,995	1,589,724
Total liabilities	1,182,446	47,273	-	5,995	1,235,714

(*) Other operating income for corporate banking amounting to TL 11,613 comprises of TL 11,240 (USD 4,000) sale income of a non-performing loan to another corporate loan customer which has been recognised as a receivable from instalment basis sale of this NPL asset. Aforementioned NPL transfer completed in the previous periods however according to the sale agreement between the Bank and corporate loan customer the receivable amount increases as incremental basis. According to the NPL transfer agreement last part of the receivable will be recognised as USD 2,000 in April 2017.

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14. Operating segments (continued)

30 June 2015	Headquarter and Treasury	Corporate Banking	Retail Banking	Foreign financial subsidiary	Non-financial services	Total
Interest income	18,068	48,646	10,805	-	102	77,621
Interest expense	(44,398)	(599)	-	-	-	(44,997)
Intersegment revenue	42,893	(35,599)	(7,294)	-	-	-
Net interest income	16,563	12,448	3,511	-	102	32,624
Net fee and commission income	49	3,303	(48)	-	-	3,304
Net trading income and foreign exchange gain, net	(2,489)	147	-	-	67	(2,275)
Other operating income	1,550	1,652	9	-	-	3,211
Total operating income	15,673	17,550	3,472	-	169	36,864
Net impairment loss on financial and non-financial assets and on consolidation goodwill	156	(180)	(3,877)	-	-	(3,901)
Total operating expenses (unallocated + allocated)	(7,291)	(9,856)	(10,052)	-	(198)	(27,397)
Income from capital allocation	(7,368)	3,559	3,809	-	-	-
Profit / (loss) before income tax	1,170	11,073	(6,648)	-	(29)	5,566
Income tax	(764)	(2,214)	1,330	-	(3)	(1,651)
Net profit/(loss) for the period from continuing operations	406	8,859	(5,318)	-	(32)	3,915
Profit from discontinued operations	-	-	-	1,892	-	1,892
Net profit/(loss) for the period	406	8,859	(5,318)	1,892	(32)	5,807
Total assets	346,733	1,309,643	127,325	-	5,793	1,789,494
Total liabilities	1,339,799	100,766	3,402	-	299	1,444,266

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15. Discontinued operations

The Bank had signed a SPA with Eurasian Bank JSC on 20 October 2015 for the sale of the Bank's 100% owned subsidiary, JSC BankPozitiv Kazakhstan.

The sale transaction has been approved by Kazakhstan authorities on 30 December 2015 and JSC BankPozitiv Kazakhstan shares amounting USD 26,266 (TL 75,246) have been transferred and registered officially to Eurasian Bank JSC. According to the completion of this sale transaction, sale loss amounting TL 108,532 has been recognised in year 2015. Significant part of this sale loss results from decrease of the investment value JSC BankPozitiv Kazakhstan related with devaluation of Kazakhstan Tenge against USD and TL.

After completion of JSC BankPozitiv Kazakhstan sale, a low yielding asset disbursed from Bank's asset structure and funds received from this sale will be used to create higher yielding assets in Turkey which will result with stronger asset and income structure for the Bank.

The JSC BankPozitiv Kazakhstan was previously classified as held-for-sale as at 30 September 2015. As at 30 June 2015, comparative consolidated statement of profit or loss has been represented to show the discontinued operation separately from continuing operations.

16. Rating

As at 30 June 2016, the Bank's ratings assigned by international rating agency, Fitch Ratings is as follows:

Fitch Ratings, February 2016

Long Term Foreign Currency IDR	BBB- (Stable)
Short Term Foreign Currency IDR	F3
Support	2
Long Term Local Currency IDR	BBB- (Stable)
Short Term Local Currency	F3
National	AA + (tur) (Stable)

17. Subsequent and other events

"Debt Liquidation and Repurchase Agreement" signed between our Bank and Gaziantep Çağlar on 30 June 2010. The copy of the "Debt Liquidation and Repurchase Agreement" submitted to the Title Deeds Registry Office was falsified and forged. Aces (new trade name of Gaziantep Çağlar), has unlawfully initiated an enforcement proceeding with judgement for TL 48,378,000 in Gaziantep 13th. Enforcement Office's file no. 2016/94269, by taking the falsified document as legal base. Accordingly, three legal process has started by our Bank stated below due to the reasons explained:

1. A complaint have filed in Enforcement Court due to the reason that (i) the legal base of enforcement proceeding is not an acceptable document for enforcement proceeding with judgement and (ii) the enforcement proceeding is illegal. In response to our complaint, the judge responsible from the file has granted a temporary injunction and determined the first hearing date as at 27 October 2016. Then, during the judiciary recess, the newly appointed judge has decided to revoke from temporary injunction and the enforcement proceeding was reinitiated. Since the Bank objected to the decision, the court has not decided to grant a temporary injunction again. We believe that, the court will give its award as annulment of the enforcement proceeding due to the fact that the enforcement proceeding was clearly illegal.

2. A Negative Declaratory Judgement (the claim to determine that the Bank has no debt) has been filed to stop the enforcement proceeding again, due to the reason that the judge has decided to revoke from temporary injunction. The court granted a temporary injunction and the enforcement proceeding stopped regarding the guarantee letter with the amount of TL 60,241,861 given by the Bank to the court. The court has not determined a hearing date yet.

3- A criminal complaint has filed to Gaziantep Public Prosecution Office against the suspects who has criminal attempt for fraud. The Prosecutor's investigation is pending.

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17. Subsequent and other events (continued)

The Bank's in-house Legal Department is working on the entire above-stated legal process with 3 outsource legal offices. Beside the results of criminal investigation conducted by the Prosecution Office, the Bank management expects that the legal cases will be finalized in favor of the Bank.