



**Bankpozitif Kredi ve Kalkınma
Bankası Anonim Şirketi**

**Consolidated Financial Statements
As at and for the Year Ended
31 December 2015
With Independent Auditors' Report**

20 April 2016

This report contains 2 pages of independent auditors' report and 72 pages of consolidated financial statements and notes to the consolidated financial statements.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of income, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Alper Güvenç, SMMM
Partner

20 April 2016
Istanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Financial Position****As at 31 December 2015***(Currency - In thousands of Turkish Lira)*

		Audited	Audited
	<i>Note</i>	31 December	31 December
		2015	2014
ASSETS			
Cash and balances with central banks	10	130	35,764
Due from banks and financial institutions	10	17,386	134,257
Interbank and other money market placements	10	114,391	1,272
Reserve deposits at central banks	11	157,901	120,840
Trading assets	12	10,048	12,678
Investment securities	13	55,108	93,886
Loaned securities	13	14,550	25,248
Loans and finance lease receivables	14	1,271,093	1,364,147
Property and equipment	15	2,415	8,016
Intangible assets	16	9,186	14,250
Deferred tax assets	9	16,633	11,984
Investment property	17	57,292	56,155
Other assets	18	63,361	42,496
Total assets		1,789,494	1,920,993
LIABILITIES			
Deposits from other banks	19	-	439
Customer deposits	19	-	77,321
Other money market deposits	19	14,508	25,188
Trading liabilities	12	31,620	31,311
Funds borrowed	20	681,253	548,732
Debt securities issued	21	647,366	742,504
Other liabilities	22	60,155	59,770
Provisions	23	9,242	8,827
Current tax liabilities	9	61	183
Deferred tax liabilities	9	61	-
Total liabilities		1,444,266	1,494,275
EQUITY			
Share capital and share premium	24	379,114	379,114
Legal reserves		16,168	16,168
Available-for-sale reserve, net of tax	24	2,874	4,109
Currency translation reserve	24	-	(42,368)
Retained earnings		(52,928)	69,695
Total equity		345,228	426,718
Total equity and liabilities		1,789,494	1,920,993

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Profit or Loss****For the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)*

		Audited	Audited
	<i>Note</i>	2015	Re-presented
			2014
Continuing operations			
Interest income			
Interest income on loans and finance leases		121,802	120,916
Interest income on deposits with other banks and financial institutions		3,302	2,926
Interest income on investment securities		6,968	24,378
Interest income on interbank and other money market placements		1,975	355
Other interest income		19,043	19,205
Total interest income		153,090	167,780
Interest expense			
Interest expense on other money market deposits		(1,554)	(6,278)
Interest expense on funds borrowed		(24,682)	(37,108)
Interest expense on debt securities issued		(55,494)	(45,911)
Other interest expense		(6,765)	(14,158)
Total interest expense		(88,495)	(103,455)
Net interest income		64,595	64,325
Fees and commission income	4	8,043	8,514
Fees and commission expense	4	(628)	(715)
Net fee and commission income	4	7,415	7,799
Net trading income and foreign exchange gain, net	5, 24	(31,186)	11,888
Other operating income	6	2,698	27,828
Total operating income		43,522	111,840
Net impairment loss on financial assets	14	(5,544)	(17,807)
Net impairment loss on consolidation goodwill		-	(52,924)
Personnel expenses	7	(26,102)	(27,158)
Depreciation and amortisation	15, 16	(4,474)	(5,286)
Administrative expenses	8	(19,556)	(19,184)
Taxes other than on income		(2,091)	(1,968)
Other expenses		(16,545)	(6,096)
Total operating expenses		(68,768)	(59,692)
Loss before income tax		(30,790)	(18,583)
Income tax	9	4,223	(4,102)
Loss from continuing operations		(26,567)	(22,685)
Discontinued operations			
Loss from discontinued operation, net of tax	31	(95,518)	(6,496)
Loss		(122,085)	(29,181)

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

(Currency - In thousands of Turkish Lira)

	Audited	Audited
	2015	2014
Loss for the year	(122,085)	(29,181)
Other comprehensive income		
<i>Items that will never be reclassified to profit or loss</i>		
Remeasurement of employee termination benefits	(673)	9
Related tax	135	(2)
	(538)	7
<i>Items that are or may be reclassified to profit or loss</i>		
Foreign currency translation differences for foreign operations	42,368	(31,952)
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	1,749	(885)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(3,349)	2,719
Income tax on other comprehensive income/(loss)	365	(365)
	41,133	(30,483)
Other comprehensive income/(loss) for the year, net of income tax	40,595	(30,476)
Total comprehensive income/(loss) for the year	(81,490)	(59,657)

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

(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	Retained earnings	Total
At 1 January 2014		337,292	20,121	21,701	14,708	2,640	(10,416)	100,329	486,375
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	(29,181)	(29,181)
Other comprehensive income									
Foreign currency translation differences	24	-	-	-	-	-	(31,952)	-	(31,952)
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	7	7
Net change in fair value of available-for-sale financial assets, net of tax	24	-	-	-	-	1,469	-	-	1,469
Total other comprehensive income		-	-	-	-	1,469	(31,952)	7	(30,476)
Total comprehensive income for the year		-	-	-	-	1,469	(31,952)	(29,174)	(59,657)
Contributions by and distributions to owners									
Dividends to equity holders		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Transfers		-	-	-	1,460	-	-	(1,460)	-
At 31 December 2014		337,292	20,121	21,701	16,168	4,109	(42,368)	69,695	426,718
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 year									
Loss for the year		-	-	-	-	-	-	(122,085)	(122,085)
Other comprehensive income									
Foreign currency translation differences	24	-	-	-	-	-	42,368	-	42,368
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	(538)	(538)
Net change in fair value of available-for-sale financial assets, net of tax	24	-	-	-	-	(1,235)	-	-	(1,235)
Total other comprehensive income		-	-	-	-	(1,235)	42,368	(538)	40,595
Total comprehensive income for the year		-	-	-	-	(1,235)	42,368	(122,623)	(81,490)
Contributions by and distributions to owners									
Dividends to equity holders		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Transfers		-	-	-	-	-	-	-	-
At 31 December 2015		337,292	20,121	21,701	16,168	2,874	-	(52,928)	345,228

The accompanying notes are an integral part of these consolidated financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Cash Flows****For the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)*

	<i>Note</i>	Audited 2015	Audited 2014
Cash flows from operating activities			
Interest received		168,059	176,482
Interest paid		(88,782)	(106,381)
Fees and commissions received		8,043	8,522
Trading income		917	1,830
Recoveries from non-performing loans		40,484	25,993
Fees and commissions paid		(628)	(723)
Cash payments to employees and other parties		(35,615)	(31,561)
Cash received from other operating activities		2,698	27,828
Cash paid for other operating activities		(44,672)	(17,297)
Income taxes paid		(183)	(132)
Loss on sale of discontinued operations		(108,532)	-
		(58,211)	84,561
Change in banks and financial institutions		406	521
Change in trading assets		(12,830)	(209)
Change in reserve deposits at central banks		(36,864)	39,906
Change in loans and finance lease receivables		204,354	362,569
Change in other assets		(22,002)	(22,281)
Change in deposit from other banks		(10,672)	(5,210)
Change in customer deposits		(77,321)	(45,508)
Change in interbank and other money market deposits		(439)	(133,677)
Change in other liabilities		712	(32,460)
Net cash used in operating activities		(12,867)	248,212
Cash flows from investing activities			
Disposal of discontinued operation, net of cash disposed of		26,801	-
Purchases of investment securities	13	(57,392)	(77,751)
Proceeds from sale and redemption of investment securities	13	97,436	238,262
Purchases of property and equipment	15	(906)	(2,851)
Proceeds from the sale of premises and equipment	15	292	1,029
Purchases of intangible assets	16	(970)	(10,961)
Net cash provided by investing activities		65,261	147,728
Cash flows from financing activities			
Proceeds from issue of debt securities		2,155,537	545,461
Repayment of debt securities		(2,065,440)	(977,826)
Proceeds from funds borrowed		292,550	258,349
Repayment of funds borrowed		(477,979)	(123,466)
Net cash (used in) / provided by financing activities		(95,332)	(297,482)
Effect of net foreign exchange difference on cash and cash equivalents		3,954	789
Net (decrease)/increase in cash and cash equivalents		(38,984)	99,247
Cash and cash equivalents at 1 January	10	170,870	71,623
Cash and cash equivalents at 31 December	10	131,886	170,870

The accompanying notes are an integral part of these consolidated financial statements.

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BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2015

(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 31 December 2015, 69.83% (2014 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (2014 – 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 – İstanbul / Turkey.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2015

(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 31 December 2015, the Bank provides services through its head office. As at 31 December 2015, the number of employees for the Bank and its consolidated subsidiaries are 133 and 2, respectively (2014 – 131 and 200).

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 31 December 2015 and 2014 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			2015	2014
C Bilişim	Istanbul/Turkey	Software development and technology	100	100

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2015

(Currency - In thousands of Turkish Lira)

2. Basis of preparation

2.1 Statement of compliance

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

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Capital Market Boards of Turkey, Turkish Commercial Code and Tax Legislation. The Bank's foreign subsidiary maintains its books of account and prepares its statutory financial statements in its local currencies and in accordance with the regulations of the country in which it operates.

The consolidated financial statements as at 31 December 2015 of the Bank are authorised for issue by the management on 20 April 2016. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- trading assets at fair value
- available-for-sale financial assets are measured at fair value
- investment property are measured at fair value

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, 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 of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are as follows;

Key sources of estimation uncertainty

Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In addition, impairment may be appropriate when there is evidence of deterioration in the financial performance of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2015

(Currency - In thousands of Turkish Lira)

2. Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Allowances for credit losses

The Group reviews its loan portfolio to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements 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 and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include 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. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of such loans and finance lease receivables as at 31 December 2015 is TL 1,271,093 (2014 – TL 1,364,147) net of impairment allowance of TL 61,511 (2014 – TL 101,657).

Determining fair values

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. As at 31 December 2015, the carrying amount of derivative financial instrument assets TL 5,858 (2014 – TL 11,261) and the carrying amount of derivative financial instrument liabilities is TL 31,620 (2014 – TL 31,311).

Income taxes

The Group is subject to income taxes in Turkey and in Kazakhstan. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 31 December 2015, the Group has net current tax liabilities amounting to TL 61 (2014– TL 183).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly. As at 31 December 2015, the Group carries a net deferred tax assets amounting to TL 16,572 (2014 – TL 11,984 deferred tax assets).

Deferred tax assets have not been recognised in respect of the remaining tax losses amounting to TL 15,447, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2015

(Currency - In thousands of Turkish Lira)

2. Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Employee termination benefits

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The carrying value of employee termination benefit provisions as at 31 December 2015 is TL 864 (2014 – TL 143).

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets and liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.10.

2.5 Changes in accounting policies

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

3.1 Basis of consolidation

i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. There is no negative goodwill recognised by the Group. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Bank, using consistent accounting policies.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***3. Significant accounting policies (continued)****3.2 Foreign currency****i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation.

Foreign currency translation rates used by the Group are as follows:

	USD / TL (full)	EUR / TL (full)
31 December 2013	2.1343	2.9365
31 December 2014	2.3189	2.8207
31 December 2015	2.9084	3.1921

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3. Significant accounting policies (continued)

3.3 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 Group 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,
- interest income and expense arising from currency swaps, cross currency swaps, futures and interest rate cap/floor agreements which are presented as other interest income and expense in the accompanying consolidated financial statements.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income (see 3.5).

3.4 Fees and commission

Fees and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Fees for bank transfers and other banking transaction services are recorded as income when collected.

3.5 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 and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

3.6 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

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3. Significant accounting policies (continued)

3.7 Income tax expense

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses can be utilised.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

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3. Significant accounting policies (continued)

3.8 Financial assets and liabilities

Recognition

The Group recognises a financial asset or financial liability in its statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

Classification

Financial assets:

The Group 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 3.9, 3.10, 3.11 and 3.12.

Financial liabilities:

The Group classifies its financial liabilities as measured at amortised cost. See 3.19.

Derecognition

The Group 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 Group does not have any assets where the Group 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 Group's continuing involvement in the asset.

The Group 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 consolidated statement of income.

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

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and 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 group of similar transactions such as in the Group's trading activity.

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3. Significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

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

When available, the Group 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 Group 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 Group 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 Group 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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As at and for the year ended 31 December 2015

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Derivative financial instruments

The Group 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 Group'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 consolidated statement of income.

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.

Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets except for financial instruments at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

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3. Significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Identification and measurement of impairment (continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers; or
 - national or local economic conditions that correlate with defaults on the assets in the group

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and finance lease receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and finance lease receivables.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

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 the consolidated statement of income.

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3. Significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Repurchase and resale transactions

The Group 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 consolidated 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 consolidated statement of financial position, as the Group 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 Group in the management of its short-term commitments.

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

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group 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 consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in consolidated statement of income. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

3.11 Due from banks and financial institutions and loans and finance lease receivables

"Due from banks and financial institutions" and "Loans and finance lease receivables" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investment – available-for-sale" or "Financial assets designated at fair value through profit or loss". After initial measurement, amounts due from banks and financial institutions and loans and finance lease receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in "Interest income" in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income in "Net impairment loss on financial assets".

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3. Significant accounting policies (continued)

3.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Group has the intent and ability to hold until maturity. Investment securities held-to-maturity are 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 consolidated statement of income.

Fair value through profit or loss

As at 31 December 2015, the Group does not have any investment securities at fair value through profit or loss (2014 – none).

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 consolidated statement of income using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the consolidated 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 the consolidated statement of income, is transferred from consolidated statement of other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

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

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.

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3. Significant accounting policies (continued)

3.13 Property and equipment (continued)

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 Group 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 the consolidated statement of income 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 lives for the current and comparative periods are as follows:

▪ buildings	50 years
▪ office equipment, furniture and fixtures	4-10 years
▪ motor vehicles	5-6 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.

3.14 Intangible assets

i) Goodwill

Goodwill arises on the acquisition of subsidiaries or businesses.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in consolidated statement of income.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

ii) Software

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

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic- benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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 consolidated statement of income 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 fifteen years.

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3. Significant accounting policies (continued)

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.

The Group has classified its Hotel in Gaziantep, previously recorded in Other Assets under Assets Held for Resale, as Investment Property. 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. The Group has selected the fair value method for the valuation of the Hotel.

3.16 Investment property

Land and buildings that are held to earn rental income or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property and carried at fair value where the change in fair value is recognised in the statement of income.

3.17 Leases

The Group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as lessor

Finance leases

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

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3. Significant accounting policies (continued)

3.18 Impairment of non-financial assets

The carrying amounts of the Group'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. The recoverable amount of goodwill is estimated at each reporting date.

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

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are 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. In the current year no impairment loss has been recognised for the goodwill.

3.19 Deposits, funds borrowed and debt securities issued

The Bank is not entitled to collect deposits. Its foreign subsidiary is entitled to collect deposits. Deposits, funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.20 Provisions

A provision is recognised if, as a result of a past event, the Group 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 Group 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 Group 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 Group recognises any impairment loss on the assets associated with that contract.

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3. Significant accounting policies (continued)

3.21 Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

(ii) Short-term benefits

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

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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.

(iii) Other benefits

The bonus provision which was calculated on defined criteria and targets for the upper-management and employees presented as provision in the accompanying consolidated financial statements.

3.22 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

3.23 Segment reporting

An operating segment is a component of the Group that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial statements is available.

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3. Significant accounting policies (continued)

3.24 New standards and interpretations not yet adopted

IFRS 9 Financial Instruments – Classification and measurement

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, a new expected credit loss model for calculating impairment on financial assets, and 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 in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 “Property, Plant and Equipment” explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 “Intangible Assets” introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The amendments are effective for annual periods beginning on after 1 January 2016, and are to be applied prospectively. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Accounting for acquisition of interests in joint operations (Amendments to IFRS 11)

The amendments clarify whether IFRS 3 “Business Combinations” applies when an entity acquires an interest in a joint operation that meets that standard’s definition of a business. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)

The amendments address the conflict between the existing guidance on consolidation and equity accounting. The amendments require the full gain to be recognised when the assets transferred meet the definition of a “business” under IFRS 3 “Business Combinations”. The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Equity method in separate financial statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries. The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Disclosure Initiative (Amendments to IAS 1)

The narrow-focus amendments to IAS 1 “Presentation of Financial Statements” clarify, rather than significantly change, existing IAS 1 requirements. In most cases the amendments respond to overly prescriptive interpretations of the wording in IAS 1. The amendments relate to the following: Materiality, order of the notes, subtotals, accounting policies and disaggregation. The amendments apply for annual periods beginning on or after 1 January 2016. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2015

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies (continued)

3.24 New standards and interpretations not yet adopted (continued)

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

Before the amendment, it was unclear how to account for an investment entity subsidiary that provides investment-related services. As a result of the amendment, intermediate investment entities are not permitted to be consolidated. So where an investment entity's internal structure uses intermediates, the financial statements will provide less granular information about investment performance – i.e. less granular fair values of, and cash flows from, the investments making up the underlying investment portfolio.

The amendments for annual periods beginning on or after 1 January 2016 apply retrospectively. Early adoption is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2012–2014 Cycle. The amendments are effective as of 1 January 2016. Earlier application is permitted. The Group does not expect that these amendments will have significant impact on the consolidated financial position or performance of the Group.

Annual Improvements to IFRSs – 2012–2014 Cycle

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”

The amendments clarify the requirements of IFRS 5 when an entity changes the method of disposal of an asset (or disposal group) and no longer meets the criteria to be classified as held-for-distribution.

IFRS 7 “Financial Instruments: Disclosures”

IFRS 7 is amended to clarify when servicing arrangement are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognised in their entirety. IFRS 7 is also amended to clarify that the additional disclosures required by “Disclosures: Offsetting Financial Assets and Financial Liabilities” (Amendments to IFRS 7).

IAS 19 “Employee Benefits”

IAS 19 has been amended to clarify that high-quality corporate bonds or government bonds used in determining the discount rate should be issued in the same currency in which the benefits are to be paid.

IAS 34 “Interim Financial Reporting”

IAS 34 has been amended to clarify that certain disclosure, if they are not included in the notes to interim financial statements, may be disclosed “elsewhere in the interim financial report” – i.e. incorporated by cross-reference from the interim financial statements to another part of the interim financial report (e.g. management commentary or risk report).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***4. Net fee and commission income**

	2015	2014
Fee and commission income		
Letters of guarantee, credit and other guarantees	5,524	5,484
Credit related fees and commissions	2,311	2,451
Banking service commissions	14	26
Other	194	553
Total fee and commission income	8,043	8,514
Fee and commission expense		
Corresponding bank fees	(232)	(197)
Other	(396)	(518)
Total fee and commission expense	(628)	(715)
Net fee and commission income	7,415	7,799

5. Net trading income and net foreign exchange gain

	2015	2014
Foreign exchange gains / (losses), net	(32,102)	10,058
Income from investment securities, net	657	1,637
Income from trading securities, net	259	193
Total	(31,186)	11,888

6. Other operating income

	2015	2014
Gain on sales of assets held for sale	1,295	4,105
Rental income	674	1,995
Valuation increase in fair value of investment property	-	18,715
Other	729	3,013
Total	2,698	27,828

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***7. Personnel expenses**

	2015	2014
Wages and salaries	21,604	21,676
Compulsory social security obligations	1,824	1,485
Other fringe benefits	1,354	1,231
Provision for employee termination and vacation benefits	1,320	2,766
Total	26,102	27,158

The number of employees for the years is:

	2015	2014
The Bank	133	131
Subsidiaries	2	200
Total	135	331

8. Administrative expenses

	2015	2014
Consultancy expenses	4,458	3,777
Operating lease expenses	2,607	2,410
Communication expenses	2,464	2,827
Information technology expenses	2,423	2,576
Advertising expenses	704	2,301
Transportation expenses	698	548
Lightening expenses	630	618
Insurance expenses	522	427
Traveling expenses	567	510
Others	4,483	3,190
Total	19,556	19,184

9. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end reporting date and taxes must be paid in one instalment by the end of the fourth month.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial position, has been calculated on a separate-entity basis.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)**

As at 31 December 2015 and 2014, prepaid income taxes are netted off with the current tax liability as stated below:

	2015	2014
Income tax liability	(61)	(6,326)
Prepaid income tax	-	6,143
Current tax liabilities	(61)	(183)

Reflected as:

	2015	2014
Current tax liabilities	(61)	(183)

Income tax recognised in the statement of income

The components of income tax expense as stated below:

	2015	2014
Current tax		
Current year	(370)	176
Deferred tax (expense) / income		
Relating to origination and reversal of temporary differences	4,593	(4,278)
Income tax reported in the statement of income	4,223	(4,102)

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the years ended 31 December 2015 and 2014 is as follows:

	2015	2014
Loss before income tax	(139,322)	(18,583)
Income tax using the domestic corporation tax rate 20%	27,864	3,717
Non-deductible expenses	(20,552)	(7,983)
Unrecognised tax losses	(3,089)	
Tax exempt income	-	164
Total income tax expense in the statement of income	4,223	(4,102)

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)****Deferred tax assets and liabilities****Recognised deferred tax assets and liabilities**

The deferred tax included in the consolidated financial position and changes recorded in the income tax expense are as follows:

	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement
	2015	2015	2015	2014	2014	2014
Derivative financial instruments	6,324	(1,172)	228	6,262	(2,252)	(52)
Liability for defined benefit plans	1,831	-	(30)	1,983	-	719
Property and equipment	-	(587)	(17)	-	(502)	(467)
Tax losses	9,352	-	1,043	7,084	-	2,634
Investment property	-	(936)	-	-	(936)	(936)
Others	1,821	(61)	3,369	2,690	(2,345)	(6,176)
Deferred tax asset / (liability)	19,328	(2,756)		18,019	(6,035)	
Set off of tax	(2,695)	2,695		(6,035)	6,035	
Net tax asset / (liability)	16,633	(61)		11,984	-	
Deferred tax income / (expense)			4,593			(4,278)

As at 31 December 2015, TL 9,352 of deferred tax assets are recognised for TL 46,760 of tax losses of the Group (31 December 2014: TL 7,084 of deferred tax assets and TL 35,420 of tax losses), unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. The Bank has a tax losses amounting to TL 46,763 which can be carried forward to offset with future taxable income.

Reflected as:

	2015	2014
Deferred tax assets	16,633	11,984
Deferred tax liabilities	61	-

Movement of net deferred tax assets can be presented as follows:

	2015	2014
Deferred tax assets, net at 1 January	11,984	11,835
Deferred tax recognised in the statement of income	4,593	(4,278)
Deferred income tax recognised in equity	365	4,508
Exchange rate differences	(370)	(81)
Deferred tax assets, net at the end of the year	16,572	11,984

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)****Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

	2015	2014
Tax losses	15,447	-
	15,447	-

Tax losses carried forward

Recognised tax losses carried forward expire as follows.

	2015	2014
2018	11,147	11,147
2019	12,495	12,495
2020	23,119	-
	46,761	23,642

10. Cash and cash equivalents

	2015	2014
Cash and balances with central banks	130	35,764
- <i>Cash on hand</i>	10	4,755
- <i>Balances with central banks</i>	120	31,009
Due from banks and financial institutions	17,386	134,257
Interbank and other money market placements	114,391	1,272
Cash and cash equivalents in the statement of financial position	131,907	171,293
Less: Due from banks with original maturities of more than 3 months and restricted balance	(21)	(423)
Cash and cash equivalents in the statement of cash flow	131,886	170,870

11. Reserve deposits at central banks

	2015	2014
Turkish Lira	5,338	2,185
Foreign currency	152,563	118,655
	157,901	120,840

According to the regulations of Central Bank of the Republic of Turkey ("Central Bank") and Central Bank of Kazakhstan, banks are required to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Group's day to day operations.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***12. Trading assets and liabilities**

	2015	2014
Debt instruments		
Turkish government bonds-TL denominated	4,190	1,417
Derivative transactions		
Derivative financial instruments	5,858	11,261
Total trading assets	10,048	12,678
Derivative transactions		
Derivative financial instruments	31,620	31,311
Total trading liabilities	31,620	31,311

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments that include forwards, currency and interest rate swaps, futures, currency options and interest rate cap/floor agreements. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

	2015		
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
Derivatives held for trading			
Forward purchase contracts	-	-	180
Forward sale contracts	12	-	3,114
Currency swap purchases	2	357	177,218
Currency swap sales	5,332	30,613	181,508
Interest Rate Swaps	512	650	36,345
Total derivatives held for trading	5,858	31,620	398,365
	2014		
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
Derivatives held for trading			
Forward purchase contracts	71	12	11,559
Forward sale contracts	47	11	6,068
Currency swap purchases	6,207	29,615	528,960
Currency swap sales	4,936	1,673	551,118
Total derivatives held for trading	11,261	31,311	1,097,705

The Group undertakes all of its transactions in derivative financial instruments with banks and other financial institutions. Notional amounts and contractual maturity analysis of derivative transactions are disclosed in Note 27.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***13. Investment and loaned securities**

	2015	2014
Available-for-sale investment securities	48,082	93,886
Loaned securities	14,550	25,248
Held-to-maturity investment securities	7,026	-
	69,658	119,134

Held-to-maturity investment securities

As at 31 December 2015 Group have held-to-maturity investment securities amounting to TL 7,026 (31 December 2014: Nil). The fair value of the held-to-maturity investment is TL 7,083 (31 December 2014: Nil) at Level 1 measurement.

Available-for-sale investment securities

	2015	2014
Available-for-sale investment securities at fair value		
Debt instruments		
Turkish government bonds – TL denominated, net	48,082	86,858
- <i>Gross amount</i>	48,082	86,858
Corporate bonds – USD denominated, net	-	7,000
- <i>Gross amount</i>	-	7,000
Total available-for-sale securities at fair value	48,082	93,858
Available-for-sale investment securities at cost		
Equity instruments – unlisted	-	28
Total available-for-sale securities	48,082	93,886

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***13. Investment and loaned securities (continued)**

Unlisted equity instruments classified as available-for-sale securities are below:

	2015	2014
Common shares of Kazakhstan Stock Exchange	-	28
	-	28

As at 31 December 2015, TL denominated available-for-sale securities comprise Turkish Government notes having a maturity range of May 2016 – September 2024.

As at 31 December 2015, available-for-sale investment securities with carrying value of TL 19,971 (31 December 2014 – TL 38,738) are kept in the Central Bank of Turkey and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for possible stock exchange and money market operations although they are not pledged.

Loaned securities

Carrying value of available-for-sale and trading securities given as collateral under repurchase agreements which are classified as loaned securities and related liability are as follows:

	2015	2014
Loaned securities from available-for-sale securities	13,403	25,248
Loaned securities from trading securities	1,147	-
Total loaned securities	14,550	25,248
Related liability (Note19)	14,508	25,188

Repurchase agreements mature within one month.

The movement in available-for-sale investment securities (including loaned securities from available-for-sale securities) is summarised as follows:

	2015	2014
Balance at 1 January	119,134	279,723
Additions	57,393	77,751
Disposals (sale and redemption)	(97,436)	(238,262)
Change in interest accruals	(9,431)	(78)
Portfolio transfer ⁽¹⁾	(7,000)	-
Sale effect of JSC BankPozitiv Kazakhstan	(28)	-
Balance at end of year end	62,632	119,134

(1) In year 2015, available-for-sale corporate debt security with a carrying amount of TL 7,000 were transferred to held-to-maturity portfolio.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables**

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
Loans and finance lease receivables in arrears	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

2014	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	182,955	805,817	149,576	1,138,348
Consumer loans	132,166	41,390	9,236	182,792
Total loans and finance lease receivables	315,121	847,207	158,812	1,321,140
Loans and finance lease receivables in arrears	70,369	31,288	-	101,657
Less: Specific reserve for impairment	(21,467)	(21,472)	-	(42,939)
Less: Portfolio reserve for impairment	(15,671)	(40)	-	(15,711)
	348,352	856,983	158,812	1,364,147

As at 31 December 2015, loans and finance lease receivables with floating rates are TL 384 (2014 – TL 239,476) and fixed interest rates are TL 1,241,180 (2014 – TL 1,081,664).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables (continued)**

Movements in non-performing loans and finance lease receivables:

	2015	2014
Non-performing loans and finance lease receivables at 1 January	101,657	68,930
Sale effect of JSC BankPozitiv Kazakhstan	(20,085)	-
Additions to non-performing loans and finance lease receivables	37,096	67,254
Recoveries	(40,484)	(25,993)
Transfers to performing loans and finance lease receivables	-	-
Write-offs ⁽¹⁾	(16,673)	(11,188)
Exchange rate differences	-	2,654
Non-performing loans and finance lease receivables at the end of year	61,511	101,657

⁽¹⁾ TL 16,673 of non-performing loans and finance lease receivables were sold to an asset management company as at 31 December 2015 (31 December 2014 – TL 10,983).

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

	2015	2014
Reserve at the beginning of the year	58,650	42,801
Provision net of recoveries	5,544	17,807
- Provision for loan and finance lease receivables impairment ⁽²⁾	11,648	29,259
- Recoveries	(6,104)	(11,452)
Write-offs ⁽¹⁾	(10,699)	(12,878)
Sale effect of JSC BankPozitiv Kazakhstan	(21,513)	10,519
Exchange rate differences	-	401
Reserve at the end of the year	31,982	58,650

⁽¹⁾ TL 10,699 (31 December 2014 – TL 2,364) 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 16,673 as at 31 December 2015 (31 December 2014 – TL 3,521).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***15. Property and equipment**

	Land and buildings	Office equipment, furniture and fixtures	Leasehold improvements	Motor vehicles	Total
Cost					
Balance at 1 January 2014	2,414	21,020	6,316	995	30,745
Additions	36	2,628	187	-	2,851
Disposals	(615)	(726)	-	-	(1,341)
Exchange rate differences	(198)	(569)	-	(75)	(842)
Balance at 31 December 2014	1,637	22,353	6,503	920	31,413
Balance at 1 January 2015	1,637	22,353	6,503	920	31,413
Additions	-	887	19	-	906
Disposals	-	(150)	(142)	-	(292)
Sale effect of JSC BankPozitiv Kazakhstan	(1,637)	(8,203)	-	(843)	(10,683)
Balance at 31 December 2015	-	14,887	6,380	77	21,344
Depreciation					
Balance at 1 January 2014	(286)	(15,503)	(5,622)	(328)	(21,739)
Depreciation charge for the year	-	(869)	(361)	-	(1,230)
Disposals	-	312	-	-	312
Sale effect of JSC BankPozitiv Kazakhstan	34	(1,073)	-	(129)	(1,168)
Exchange rate differences	25	379	-	24	428
Balance at 31 December 2014	(227)	(16,754)	(5,983)	(433)	(23,397)
Balance at 1 January 2015	(227)	(16,754)	(5,983)	(433)	(23,397)
Depreciation charge for the year	-	(1,052)	(39)	(70)	(1,161)
Disposals	-	-	-	-	-
Sale effect of JSC BankPozitiv Kazakhstan	227	5,043	-	359	5,629
Balance at 31 December 2015	-	(12,763)	(6,022)	(144)	(18,929)
Carrying amounts					
Balance at 31 December 2013	2,128	5,517	694	667	9,006
Balance at 31 December 2014	1,410	5,599	520	487	8,016
Balance at 31 December 2015	-	2,124	358	(67)	2,415

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***16. Intangible assets**

	Goodwill	Purchased software	Developed software	Total
Cost				
Balance at 1 January 2014	65,101	21,596	8,388	95,085
Additions	-	10,428	533	10,961
Disposals	-	(24)	(8,371)	(8,395)
Exchange rate differences	5,630	(405)	(4)	5,221
Balance at 31 December 2014	70,731	31,595	546	102,872
Balance at 1 January 2015	70,731	31,595	546	102,872
Additions	-	970	-	970
Disposals	-	-	-	-
Sale effect of JSC BankPozitiv Kazakhstan	-	(5,409)	(8)	(5,417)
Balance at 31 December 2015	70,731	27,156	538	98,425
Amortisation and impairment losses				
Balance at 1 January 2014	(12,770)	(13,986)	(3,620)	(30,376)
Amortisation charge for the year	-	(3,506)	(550)	(4,056)
Disposals	-	-	3,861	3,861
Net impairment loss on consolidation	(52,331)	-	-	(52,331)
Sale effect of JSC BankPozitiv Kazakhstan	-	(312)	-	(312)
Exchange rate differences	(5,630)	222	-	(5,408)
Balance at 31 December 2014	(70,731)	(17,582)	(309)	(88,622)
Balance at 1 January 2015	(70,731)	(17,582)	(309)	(88,622)
Amortisation charge for the year	-	(3,313)	-	(3,313)
Disposals	-	-	-	-
Exchange rate differences	-	2,692	4	2,696
Balance at 31 December 2015	(70,731)	(18,203)	(305)	(89,239)
Carrying amounts				
Balance at 31 December 2013	52,331	7,610	4,768	64,709
Balance at 31 December 2014	-	14,013	237	14,250
Balance at 31 December 2015	-	8,953	233	9,186

Intangible assets consist of purchased software and developed software.

The carrying amount of goodwill at 31 December 2015 was nil (31 December 2014 – none).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***17. 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. The fair value of the Hotel has been assessed at TL 57,292.

Accordingly, the Hotel was valued by an independent appraiser. According to the report dated 2 May 2014 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 674 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 – 31 December 2015	1 January – 31 December 2014
Balance at 1 January	56,155	-
Reclassification from other assets	-	37,440
Additions	1,137	-
Disposals	-	-
<i>Accounted in other income</i>		
Change in fair value	-	18,715
Total	57,292	56,155

18. Other assets

	2015	2014
Collateral given for derivative and other transactions	50,874	24,239
Prepaid expenses	5,158	6,250
Assets held for resale	3,267	3,267
Prepaid taxes	350	2,536
Advances given	80	774
Others	3,632	5,430
	63,361	42,496

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	2015		2014	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	-	-	-	439
Total	-	-	-	439

Customer deposits

	2015		2014	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign Currency
Retail customers				
Demand	-	-	-	9,427
Time	-	-	-	4,108
Total	-	-	-	13,535
Corporate customers				
Demand	-	-	-	49,933
Time	-	-	-	13,853
Total	-	-	-	63,786
Total	-	-	-	77,321

Other money market deposits

	2015		2014	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements	14,508	-	25,188	-
<i>Central Bank of Turkey</i>	14,294	-	18,505	-
<i>Other</i>	214	-	6,683	-
Other money market deposits	-	-	-	-
Total	14,508	-	25,188	-

As at 31 December 2015, other money market deposits of TL 14,508 (31 December 2014 – TL 25,188) have fixed interest rates.

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	2015		2014	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term⁽¹⁾				
Fixed interest	10,044	237,995	30,599	199,200
Floating interest	-	29,104	-	-
Long-term⁽¹⁾				
Fixed interest	-	335,393	-	215,881
Floating interest	-	68,717	-	103,052
Total	10,044	671,209	30,599	518,133

⁽¹⁾ Based on original maturities.

Repayments of long term borrowing are as follows:

	2015		2014	
	Floating rate	Fixed rate	Floating rate	Fixed rate
2016	28,980	167,715	24,941	177,922
2017	28,661	17,387	45,286	5,704
2018	11,076	17,387	24,131	-
Thereafter	-	132,904	8,694	32,255
Total	68,717	335,393	103,052	215,881

Floating rate borrowings have interest rate re-pricing periods of 3 to 6 months.

As at 31 December 2015 and 2014, funds borrowed are unsecured.

As at 31 December 2015 and 2014, the Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***21. Debt securities issued**

	2015		2014	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign Currency
Debt securities issued at amortised cost	210,233	437,133	388,760	353,744
Total	210,233	437,133	388,760	353,744

22. Other liabilities

	2015	2014
Current accounts of loan customers	51,019	49,906
Unearned commission income	3,194	1,276
Insurance payables	81	129
Taxes and funds payables	-	1,877
Collateral received for derivative transactions	-	1,229
Others	5,861	5,353
	60,155	59,770

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	2015	2014
Bonus provision	5,965	6,589
Vacation pay liability	1,183	1,113
Employee termination benefits	864	143
Other ⁽¹⁾	1,230	982
	9,242	8,827

⁽¹⁾ The provision provided for legal cases amounting to TL 1,152 (31 December 2014: TL 916) is included under other provisions.

The movement in provision for employee termination benefits is as follows:

	2015	2014
At 1 January	143	156
Charge / (reversal) during the year	48	(4)
Actuarial gain / (loss) ⁽¹⁾	673	(9)
At 31 December	864	143

⁽¹⁾ The actuarial loss amounting to TL 673 (31 December 2014: TL 9 gain) was accounted under retained earnings.

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2015 and 2014, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the reporting date.

The principal actuarial assumptions used at the reporting dates are as follows:

	2015	2014
Discount rate	3.81%	3.81%
Expected rates of salary/limit increases	5.00%	5.00%

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognised in retained earnings.

Other provisions

Other provision includes upper-management and employees bonus and retention agreement provision which was calculated on defined criteria and targets.

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	2015	2014
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 31 December 2015 and 2014, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2015		2014	
	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	

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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***24. Capital and reserves (continued)****Other reserves**

Movement in other reserves are as follows:

	Available- for-sale reserve	Foreign currency translation reserve	Total
At 1 January 2014	2,640	(10,416)	(7,776)
Net unrealised gains on available-for-sale financial investments	1,469	-	1,469
Foreign currency translation	-	(31,952)	(31,952)
At 31 December 2014	4,109	(42,368)	(38,259)
At 1 January 2015	4,109	(42,368)	(38,259)
Net unrealised gains on available-for-sale financial investments	(1,235)	-	(1,235)
Foreign currency translation	-	42,368	42,368
At 31 December 2015	2,874	-	2,874

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. As at 31 December 2015 the Group has nil currency translation reserves (2014: TL (42,468)).

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.

Dividends

No dividend payments were made as at 31 December 2015 (2014: none).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***25. Related parties**

The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (2014 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these consolidated financial information, 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	
	2015	2014	2015	2014	2015	2014
Loans and finance lease receivables						
At 1 January	-	-	1	89	-	-
At end of the year	-	-	-	1	-	-
Interest income	-	-	18	8	-	-

As at 31 December 2015, no provisions have been recognised in respect of loans given to related parties (2014 – none).

	Shareholders		Directors and key management personnel		Others	
	2015	2014	2015	2014	2015	2014
Funds borrowed						
At 1 January	185,851	192,335	-	-	70,926	72,890
At end of the year	218,514	185,851	-	-	2,920	70,926
Interest expense	(6,621)	(1,896)	-	-	(1,519)	(2,357)

Other balances with related parties:

Related party		Due from banks	Deposits	Other assets	Other Liabilities	Non-cash Loans
Shareholders	2015	-	-	-	3	23,727
	2014	14	-	-	3	19,050
Directors and key management personnel	2015	-	-	-	-	-
	2014	-	26	-	-	-
Others	2015	-	-	-	16	1,181
	2014	7	439	-	96	1,315

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***25. Related party disclosures (continued)**

Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expense	Other operating income	Other operating expense
Shareholders	2015	-	-	(18)	16	-
	2014	-	-	(51)	24	-
Directors and key management personnel	2015	-	-	-	2	-
	2014	-	-	-	3	-
Others	2015	-	-	(66)	1	-
	2014	-	-	-	6	-

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 10,105 (2014 – TL 9,443) comprising salaries and other short-term benefits.

26. 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:

	2015	2014
Letters of guarantee	630,377	670,327
Letters of credit	67,801	82,148
Other guarantees	21,422	36,227
Commitments	29,095	3,187
Total non-cash loans	748,695	791,889

Fiduciary activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in this consolidated financial information.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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27. 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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27. Financial risk management (continued)

Strategy in using financial instruments (continued)

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.

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 take prefer 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 Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)****Analysis of credit quality**

The tables below set out information about the credit quality of financial assets and the allowance for impairment/loss held by the Group against those assets.

	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

	Loans and advances to customers	Loans and advances to banks	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	1,282,571	134,257	119,134	791,889
Past due but not impaired	38,569	-	-	-
Individually impaired	101,657	-	-	-
Allowance for impairment				
- Individual impairment	(42,939)	-	-	-
- Collective impairment	(15,711)	-	-	-
	1,364,147	134,257	119,134	791,889

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

- i) 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.
- ii) 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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27. Financial risk management (continued)

Credit risk (continued)

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.

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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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27. Financial risk management (continued)

Credit risk (continued)

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 31 December 2015, the share of the Group's receivables from its top 20 credit customers in its total loan portfolio is 69% (2014 – 40%).

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 Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

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:

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
Others	6,755	96,498	103,253
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
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 Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

2014	Cash loans	Non-cash loans	Total
Electric production and supply	162,058	110,860	272,918
Other commercial services	211,821	47,386	259,207
Consumer loans	181,246	1,892	183,138
Personal other services	101,934	62,148	164,082
Building contractor (general and special trade)	88,096	69,002	157,098
Public works and civil engineering	118,520	33,511	152,031
Trade	18,732	126,493	145,225
Metal and by-products	41,162	91,842	133,004
Holding companies	106,429	11,651	118,080
Tourism and entertainment	102,147	11,277	113,424
Other financial institutions	30,198	51,236	81,434
Transportation	59,052	12,593	71,645
Textile and clothing	38,730	12,433	51,163
Machinery and equipment	6,054	38,983	45,037
Others	13,483	26,857	40,340
Chemical and Oil Products	20,238	17,986	38,224
Commercial, mortgage, investment finance banks	-	34,520	34,520
Electrical and electronic equipment	-	14,774	14,774
Food, beverage and tobacco industries	2,228	8,646	10,874
Agriculture and forestry	313	7,799	8,112
Total performing loans	1,302,441	791,889	2,094,330
Loans in arrears	101,657	-	101,657
Interest accruals	18,699	-	18,699
Provision for possible loan losses	(58,650)	-	(58,650)
Total loans	1,364,147	791,889	2,156,036

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

As at 31 December 2015, total collateralisation coverage of cash and non-cash loans are 65% (2014 – 80%).

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

	2015	2014
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	46,313	53,787
Secured by pledge	-	17,063
Secured by guarantee	732	1,387
Secured by assignment and cheques	-	9,881
Unsecured	14,466	19,539
Total	61,511	101,657
Cash loans (including financial lease receivables) except loan in arrears		
Secured by cash	1,108	37,236
Secured by mortgages	385,263	422,560
Secured by pledge	95,441	144,367
Secured by guarantee	111,754	308,033
Secured by assignment and cheques	118,426	172,430
Unsecured	529,572	236,514
Total	1,241,564	1,321,140
Non-cash loans		
Secured by cash	6,050	13,764
Secured by mortgages	42,521	46,612
Secured by pledge	8,499	22,400
Secured by guarantee	394,812	434,218
Secured by assignment and cheques	93,349	95,825
Unsecured	203,464	179,070
Total	748,695	791,889

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27. 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.

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27. Financial risk management (continued)

Liquidity risk (continued)

The table below analyses residual contractual maturities of liabilities:

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.

2014	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
Deposit from other banks	439	439	439	-	-	-	-	-
Customer deposits	77,321	77,474	59,362	3,562	2,884	6,005	5,661	-
Interbank and other money market deposits	25,188	25,202	-	25,202	-	-	-	-
Funds borrowed	548,732	559,095	-	210,579	31,073	198,294	95,948	23,201
Debt securities issued	742,504	822,284	-	52,009	88,019	211,865	470,391	-
Current account of loan customers ⁽¹⁾	49,906	51,771	-	39,153	3,456	8,471	-	691
	1,444,090	1,536,265	59,801	330,505	125,432	424,635	572,000	23,892

⁽¹⁾ Included in other liabilities.

The table below analyses contractual maturities of derivative transactions:

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
2014	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	11,373	-	186	-	-	-	11,559
Forward sale contracts	5,881	-	187	-	-	-	6,068
Currency swap purchases	227,572	88,212	68,204	56,630	88,342	-	528,960
Currency swap sales	235,658	98,738	69,809	59,795	87,118	-	551,118
	480,484	186,950	138,386	116,425	175,460	-	1,097,705

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27. Financial risk management (continued)

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 31 December 2015, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 55 (2014 – TL 74) 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 Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Currency risk (continued)**

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

2015	USD	Euro	CHF	JPY	Others	Total
Assets						
Cash and balances with central banks	-					
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 ⁽¹⁾	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	89,022	(47,998)	(5,245)	(1,351)	(194)	34,234
Net exposure	52,731	(14,662)	881	275	15	39,240

⁽¹⁾ Foreign currency net non-performing loans and finance lease receivables amounting to TL 18,599 are included at foreign currency position.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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27. Financial risk management (continued)

Currency risk (continued)

2014	USD	Euro	CHF	JPY	KZT	Others	Total
Assets							
Cash and balances with central banks	20,242	131	-	-	15,371	3	35,747
Due from banks and financial institutions	27,437	1,488	185	61	5	294	29,470
Other money market placements	-	-	-	-	1,272	-	1,272
Reserve deposits at central Banks	116,548	-	-	-	2,107	-	118,655
Investment securities	-	-	-	-	28	-	28
Loans and finance lease receivables ⁽¹⁾	623,877	238,921	5,787	1,693	145,401	107	1,015,786
Property and equipment	-	-	-	-	5,059	-	5,059
Intangible assets	-	-	-	-	2,715	-	2,715
Deferred tax assets	-	-	-	-	814	-	814
Other assets	27,988	12	-	-	5,711	1	33,712
Total assets	816,092	240,552	5,972	1,754	178,483	405	1,243,258
Liabilities							
Deposit from other banks ⁽²⁾	1	5	-	-	429	4	439
Customer deposits ⁽²⁾	41,922	1,120	-	-	34,184	95	77,321
Funds borrowed	251,092	267,041	-	-	-	-	518,133
Debt securities issued	353,744	-	-	-	-	-	353,744
Other liabilities	23,069	8,692	111	1	538	3	32,414
Provisions	-	-	-	-	162	-	162
Total liabilities	669,828	276,858	111	1	35,313	102	982,213
Gross exposure	146,264	(36,306)	5,861	1,753	143,170	303	261,045
Off-balance sheet position							
Net notional amount of derivatives	(297,638)	36,681	(5,861)	(1,719)	-	(216)	(268,753)
Net exposure	(151,374)	375	-	34	143,170	87	(7,708)

⁽¹⁾ Foreign currency net non-performing loans and finance lease receivables amounting to TL 18,599 are included at foreign currency position.

⁽²⁾ Figures represent the foreign subsidiary's deposit balances.

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 31 December 2015 and 2014 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.

	2015		2014	
	Equity	Profit or loss	Equity	Profit or loss
USD	5,273	5,273	(15,137)	(15,137)
EUR	(1,466)	(1,466)	37	37
Other currencies	117	117	14,329	14,329
	3,924	3,924	(771)	(771)

A 10% strengthening of the TL against the foreign currencies at 31 December 2015 and 2014 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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27. Financial risk management (continued)

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

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27. 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:

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	76,297	290,638
Off-balance sheet interest sensitivity gap, net	-	(13,400)	-	(15,480)	-	-	-	-	-	-	(28,880)
Total interest sensitivity gap	404,123	(279,174)	(26,900)	59,100	103,712	(272,537)	76,899	48,853	71,115	76,297	261,758

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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27. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

2014	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	-	-	-	-	-	-	-	-	-	35,764	35,764
Due from banks and financial institutions	114,701	327	-	-	-	-	-	-	-	19,229	134,257
Interbank and other money market placements	1,272	-	-	-	-	-	-	-	-	-	1,272
Reserve deposits at central banks	-	-	-	-	-	-	-	-	-	120,840	120,840
Investment securities	-	21,798	19,808	52,252	-	-	-	-	-	28	93,886
Loaned securities	4,107	1,816	19,325	-	-	-	-	-	-	-	25,248
Loans and finance lease receivables	175,790	79,631	118,869	258,243	272,658	161,931	114,737	55,104	84,137	43,047	1,364,147
Other assets	-	114	53	-	417	-	-	-	-	41,912	42,496
Total assets	295,870	103,686	158,055	310,495	273,075	161,931	114,737	55,104	84,137	260,820	1,817,910
Liabilities											
Deposit from other banks ⁽¹⁾	-	-	-	-	-	-	-	-	-	439	439
Customer deposits ⁽¹⁾	3,562	2,869	972	4,902	4,212	1,164	-	278	-	59,362	77,321
Other money market deposits	25,188	-	-	-	-	-	-	-	-	-	25,188
Funds borrowed	194,360	87,700	63,213	58,785	122,611	-	-	-	22,063	-	548,732
Debt securities issued	53,410	83,216	118,907	64,000	76,180	-	346,791	-	-	-	742,504
Other liabilities	20,479	3,456	8,471	-	-	-	-	-	682	26,682	59,770
Total liabilities	296,999	177,241	191,563	127,687	203,003	1,164	346,791	278	22,745	86,483	1,453,954
Financial position interest sensitivity gap	(1,129)	(73,555)	(33,508)	182,808	70,072	160,767	(232,054)	54,826	61,392	174,337	363,956
Off-balance sheet interest sensitivity gap, net	(7,441)	(10,970)	-	(1,327)	(5,001)	-	-	-	-	-	(24,739)
Total interest sensitivity gap	(8,570)	(84,525)	(33,508)	181,481	65,071	160,767	(232,054)	54,826	61,392	174,337	339,217

⁽¹⁾ Figures represent the foreign subsidiary's deposit balances.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)**

As at 31 December 2015 and 2014, the effective interest rate applied on balance sheet items summarised as follows:

2015 (%)	TL	USD	EUR	CHF	JPY	GBP	KZT
Due from banks and financial institutions	15.32	0.35	-	-	-	-	-
Interbank and other money market placements	-	-	-	-	-	-	-
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	-
Deposits from other banks	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-
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	-	-	-	-
2014 (%)	TL	USD	EUR	CHF	JPY	GBP	KZT
Due from banks and financial institutions	10.22	0.13	0.05	-	-	-	-
Interbank and other money market placements	-	-	-	-	-	-	-
Marketable securities (Investment and trading)	14.61	9.63	-	-	-	-	-
Loans and finance lease receivables							
- Corporate loans	16.28	6.81	5.23	-	-	-	9.56
- Retail loans	16.86	9.26	8.35	7.36	6.38	11.41	14.18
Deposits from other banks	-	-	-	-	-	-	-
Customer deposits	-	4.41	-	-	3.79	-	4.76
Other money market deposits	9.66	-	-	-	-	-	-
Funds borrowed and debt securities issued	9.90	5.00	3.27	-	-	-	-
Current account of loan customers ⁽¹⁾	7.31	3.16	3.56	-	-	-	-

⁽¹⁾ Included in other liabilities.

The Bank's value at market risks as of 31 December 2015 and as of 31 December 2014 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	2015			2014		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	2,738	4,402	1,151	3,031	4,231	2,255
Counter party risk	398	579	244	437	595	320
Currency risk	8,746	12,214	869	4,510	6,899	1,356
Total value-at-risk	11,882	17,195	2,264	7,978	11,725	3,931

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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)****Exposure to interest rate risk – non-trading portfolios**

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 (%)	2015	2014
Local TL interest rate		
+500 bps	(5.06)	(4.46)
-400 bps	5.58	5.64
Foreign currency interest rate		
+200 bps EUR	0.70	(1.25)
-200 bps EUR	(0.38)	0.30
+200 bps USD	1.59	0.26
-200 bps USD	(0.22)	(0.35)

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 31 December 2015 and 31 December 2014 are as follows:

	2015	2014
Amount subject to credit risk (I)	1,686,775	2,237,325
Amount subject to market risk (II)	102,800	43,200
Amount subject to operational risk (III)	146,475	191,488
Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)	1,936,050	2,472,013
Capital for the purpose of calculating the capital adequacy ratio	331,129	370,371
Capital adequacy ratio	17.10%	14.98%

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28. Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2015	Note	Trading	Designated at fair value	Held- to-maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Cash and balances with central banks	10	-	-	-	130	-	-	130
Due from banks and financial institutions	10	-	-	-	17,386	-	-	17,386
Interbank and other money market placements	10	-	-	-	114,391	-	-	114,391
Reserve deposits at central banks	10	-	-	-	157,901	-	-	157,901
Trading assets	12	10,048	-	-	-	-	-	10,048
Investment securities	13	-	-	-	-	55,108	-	55,108
Loaned securities	13	-	-	-	-	14,550	-	14,550
Loans and finance lease receivables	14	-	-	-	1,271,093	-	-	1,271,093
Total		10,048	-	-	1,560,901	69,658	-	1,640,607
Deposits from other banks	19	-	-	-	-	-	-	-
Customer deposits	19	-	-	-	-	-	-	-
Other money market deposits	19	-	-	-	-	-	14,508	14,508
Trading liabilities	12	31,620	-	-	-	-	-	31,620
Funds borrowed	20	-	-	-	-	-	681,253	681,253
Debt securities issued	21	-	-	-	-	-	647,366	647,366
Current accounts of loan customers ⁽¹⁾	22	-	-	-	-	-	51,019	51,019
Total		31,620	-	-	-	-	1,394,146	1,425,766

⁽¹⁾ Included in other liabilities.

31 December 2014	Note	Trading	Designated at fair value	Held- to-maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Cash and balances with central banks	10	-	-	-	35,764	-	-	35,764
Due from banks and financial institutions	10	-	-	-	134,257	-	-	134,257
Interbank and other money market placements	10	-	-	-	1,272	-	-	1,272
Reserve deposits at central banks	10	-	-	-	120,840	-	-	120,840
Trading assets	12	12,678	-	-	-	-	-	12,678
Investment securities	13	-	-	-	-	93,886	-	93,886
Loaned securities	13	-	-	-	-	25,248	-	25,248
Loans and finance lease receivables	14	-	-	-	1,364,147	-	-	1,364,147
Total		12,678	-	-	1,656,280	119,134	-	1,788,092
Deposits from other banks	19	-	-	-	-	-	439	439
Customer deposits	19	-	-	-	-	-	77,321	77,321
Other money market deposits	19	-	-	-	-	-	25,188	25,188
Trading liabilities	12	31,311	-	-	-	-	-	31,311
Funds borrowed	20	-	-	-	-	-	548,732	548,732
Debt securities issued	21	-	-	-	-	-	742,504	742,504
Current accounts of loan customers ⁽¹⁾	22	-	-	-	-	-	49,906	49,906
Total		31,311	-	-	-	-	1,444,090	1,475,401

⁽¹⁾ Included in other liabilities.

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29. Fair value of financial instruments

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.8.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***29. Fair value of financial instruments (continued)****Valuation of assets measured at fair value (continued)**

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:

2015	Level 1	Level 2	Level 3	Total
Investment property	-	-	57,292	57,292
Trading assets	4,190	5,858	-	10,048
Investment and loaned securities ⁽¹⁾	62,632	-	-	62,632
	66,822	5,858	57,292	129,972
Trading liabilities	-	31,620	-	31,620
	-	31,620	-	31,620
2014	Level 1	Level 2	Level 3	Total
Investment properties	-	-	56,155	56,155
Trading assets	1,417	11,261	-	12,678
Investment and loaned securities ⁽¹⁾	119,106	-	-	119,106
	120,523	11,261	56,155	187,939
Trading liabilities	-	31,311	-	31,311
	-	31,311	-	31,311

⁽¹⁾ As at 31 December 2015, securities that are not publicly traded amounting to nil have been measured at cost and are excluded from the table (2014 – TL 28).

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29. Fair value of financial instruments (continued)

Financial instruments not measured at fair value – fair value hierarchy (continued)

Loans and finance lease receivables

Loans and finance lease receivables are net of provisions for impairment. The estimated fair value of loans and finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Estimated fair value of lease contracts receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Held-to-maturity investments

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Customer deposits, other money market deposits, debt securities issued, funds borrowed and current accounts of loan customers

The estimated fair value of fixed interest bearing customer deposits, other money market deposits, debt securities issued and current accounts of loan customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The estimated fair value of fixed interest bearing funds borrowed is based on discounted cash flows using interest rates for new debts with similar remaining maturity and the estimated fair value of floating interest bearing funds borrowed are equal to their carrying value.

Fair values of remaining financial assets and liabilities carried at amortised cost, including cash and balances with central banks, due from banks and financial institutions, interbank and other money market placements, reserve deposits at central banks, deposits from other banks are considered to approximate their respective carrying values due to their short-term nature.

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30. Operating segments

The Group has four reportable segments, namely asset management and treasury, corporate banking, retail banking, foreign financial subsidiary and non-financial services (includes activities of C Bilişim), 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.

2015	Asset management and treasury	Corporate banking	Retail banking	Foreign financial subsidiary	Non-financial services	Eliminations/ Adjustments	Total
Interest income	30,571	102,719	19,469	-	331	-	153,090
Interest expense	(86,845)	(1,650)	-	-	-	-	(88,495)
Intersegment revenue	67,974	(65,094)	(2,880)	-	-	-	-
Net interest income	11,700	35,975	16,589	-	331	-	64,595
Net fee and commission income	(207)	7,827	(205)	-	-	-	7,415
Net trading income and foreign exchange gain, net	(31,510)	217	-	-	107	-	(31,186)
Other operating income	981	(6,504)	8,221	-	-	-	2,698
Total operating income	(19,036)	37,515	24,605	-	438	-	43,522
Net impairment loss on financial and non-financial assets	1,561	9,662	(16,767)	-	-	-	(5,544)
Total operating expenses	(136,440)	(20,408)	(20,289)	-	(163)	-	(177,300)
Profit/(Loss) before income tax	(153,915)	26,769	(12,451)	-	275	-	(139,322)
Income tax	4,281	-	-	-	(58)	-	4,223
Net profit / (loss) for the year from continuing operations	(149,634)	26,769	(12,451)	-	217	-	(135,099)
Net profit / (loss) for the year from discontinued operations	-	-	-	13,014	-	-	13,014
Net profit / (loss) for the year	(149,634)	26,769	(12,451)	13,014	217	-	(122,085)
Total assets	355,898	1,309,643	127,325	-	5,982	(9,354)	1,789,494
Total liabilities	1,360,566	100,766	3,402	-	236	(20,704)	1,444,266
Operating segments (continued)							

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BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements As at and for the year ended 31 December 2015

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2014	Asset management and treasury	Corporate banking	Retail banking	Foreign financial subsidiary	Non-financial services	Eliminations/ Adjustments	Total
Interest income	46,416	95,542	25,799	-	23	-	167,780
Interest expense	(101,781)	(1,674)	-	-	-	-	(103,455)
Intersegment revenue	41,174	(37,419)	(3,755)	-	-	-	-
Net interest income	(14,191)	56,449	22,044	-	23	-	64,325
Net fee and commission income	(319)	8,265	(147)	-	-	-	7,799
Net trading income and foreign exchange gain, net	10,907	959	10	-	12	-	11,888
Other operating income	5,665	20,557	45	-	4,709	(3,148)	27,828
Total operating income	2,062	86,230	21,952	-	4,744	(3,148)	111,840
Net impairment loss on financial and non-financial assets	(58,254)	(5,723)	(6,754)	-	-	-	(70,731)
Total operating expenses	(13,593)	(23,682)	(20,378)	-	(4,161)	2,122	(59,692)
Profit / (loss) before income tax	(69,785)	56,825	(5,180)	-	583	(1,026)	(18,583)
Income tax	7,112	(12,225)	1,149	-	(138)	-	(4,102)
Net profit / (loss) for the year from continuing operations	(62,673)	44,600	(4,031)	-	445	(1,026)	(22,685)
Net profit / (loss) for the year from discontinued operations	-	-	-	(6,496)	-	-	(6,496)
Net profit / (loss) for the year	(62,673)	44,600	(4,031)	(6,496)	445	(1,026)	(29,181)
Total assets	345,921	1,329,894	175,552	223,947	5,981	(160,302)	1,920,993
Total liabilities	1,325,129	94,304	3,741	86,794	453	(16,146)	1,494,275

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2015***(Currency - In thousands of Turkish Lira)***31. Discontinued operations**

The Bank had signed a SPA with Eurasian Bank JSC 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 31 December 2015 both current and comparative consolidated statement of profit or loss has been represented to show the discontinued operation separately from continuing operations.

Results from discontinued operations

Discontinued operations	2015	2014
Total interest income	20,458	19,265
Total interest expense	(682)	(1,881)
Net fee and commission income	2,330	2,008
Net trading income and foreign exchange gain, net	12,267	1,702
Other operating income	123	237
Total operating income	34,496	21,331
Net impairment loss on financial assets	(114)	(10,519)
Total operating expenses	(18,237)	(16,957)
Profit/(Loss) from operating activities	16,145	(6,145)
Income tax	(3,131)	(351)
Profit/(Loss) from operating activities, net of tax	13,014	(6,496)
Loss on sale of discontinued operations	(108,532)	-
Profit/(Loss) from discontinued operation	(95,518)	(6,496)
Loss	(122,085)	(29,181)

32. Rating

As at 31 December 2015, the Bank's ratings assigned by international rating agency, Fitch Ratings are 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)

33. Subsequent and other events

On 12 February 2016, Fitch Ratings has announced the banks Long Term Foreign Currency IDR rating as BBB-, Financial Capacity rating as B+ and Support rating as 2. The Bank's outlook has been announced as stable.