

**Bankpozitif Kredi ve Kalkınma
Bankası Anonim Şirketi**

**Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information
For the Nine-Month Period Ended
30 September 2014**

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

14 November 2014

This report contains 1 page of independent auditors' report on review of condensed consolidated interim financial information and 39 pages of condensed consolidated financial statements and notes to the condensed consolidated interim financial information.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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Independent auditors' report on review of interim financial information

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group") as at 30 September 2014, the condensed consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 September 2014 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

KPMG Akis Bağımsız Denetim ve SMMM AŞ

14 November 2014
Istanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Financial Position****As at 30 September 2014***(Currency - In thousands of Turkish Lira)*

| | | Reviewed | Audited |
|---|-------------|---------------------|--------------------|
| | | 30 September | 31 December |
| | <i>Note</i> | 2014 | 2013 |
| ASSETS | | | |
| Cash and balances with central banks | | 50,354 | 27,208 |
| Due from banks and financial institutions | | 21,636 | 27,301 |
| Interbank and other money market placements | | 6,266 | 18,010 |
| Reserve deposits at central banks | | 115,678 | 160,746 |
| Trading assets | | 16,823 | 5,925 |
| Investment securities | | 184,378 | 126,090 |
| Loaned securities | | 16,092 | 153,921 |
| Loans and finance lease receivables | 4 | 1,455,817 | 1,674,477 |
| Property and equipment | | 7,750 | 9,004 |
| Intangible assets | 5 | 13,555 | 64,709 |
| Current tax assets | | - | 2,284 |
| Deferred tax assets | | 8,673 | 11,867 |
| Investment property | 6 | 65,000 | - |
| Other assets | | 38,166 | 61,377 |
| Total assets | | 2,000,188 | 2,342,919 |
| LIABILITIES | | | |
| Deposits from other banks | | 4,050 | 5,649 |
| Customer deposits | | 95,249 | 122,829 |
| Other money market deposits | | 16,063 | 158,903 |
| Trading liabilities | | 26,143 | 25,426 |
| Funds borrowed | 7 | 739,827 | 885,517 |
| Debt securities issued | 8 | 621,128 | 580,011 |
| Other liabilities | | 51,287 | 71,218 |
| Provisions | | 6,958 | 6,827 |
| Current tax liabilities | | 134 | 132 |
| Deferred tax liabilities | | - | 32 |
| Total liabilities | | 1,560,839 | 1,856,544 |
| EQUITY | | | |
| Share capital and share premium | 9 | 379,114 | 379,114 |
| Legal reserves | | 16,168 | 14,708 |
| Available-for-sale reserve, net of tax | 9 | 3,695 | 2,640 |
| Currency translation reserve | 9 | (42,581) | (10,416) |
| Retained earnings | | 82,953 | 100,329 |
| Total equity | | 439,349 | 486,375 |
| Total equity and liabilities | | 2,000,188 | 2,342,919 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss****For the nine-month period ended 30 September 2014***(Currency - In thousands of Turkish Lira)*

| | Reviewed | Reviewed | Reviewed | Reviewed |
|---|--------------|-----------------|-----------------|-----------------|
| | 1 January – | 1 July – | 1 January – | 1 July – |
| | 30 September | 30 September | 30 September | 30 September |
| | 2014 | 2014 | 2013 | 2013 |
| | Note | | | |
| Interest income | | | | |
| Interest income on loans and finance leases | | 106,763 | 34,200 | 99,290 |
| Interest income on deposits with other banks and financial institutions | | 363 | 142 | 941 |
| Interest income on investment securities | | 21,532 | 9,033 | 10,904 |
| Interest income on interbank and other money market placements | | 307 | 301 | 3,435 |
| Other interest income | | 12,769 | 5,549 | 13,095 |
| Total interest income | | 141,734 | 49,225 | 127,665 |
| Interest expense | | | | |
| Interest expense on deposits | | (1,245) | (439) | (1,237) |
| Interest expense on other money market deposits | | (5,940) | (380) | (3,868) |
| Interest expense on funds borrowed | | (29,183) | (8,758) | (28,640) |
| Interest expense on debt securities issued | | (33,494) | (13,159) | (30,713) |
| Other interest expense | | (10,835) | (5,932) | (4,722) |
| Total interest expense | | (80,697) | (28,668) | (69,180) |
| Net interest income | | 61,037 | 20,557 | 58,485 |
| Net fee and commission income | | 7,440 | 2,025 | 8,044 |
| Fees and commission income | | 8,829 | 2,553 | 9,500 |
| Fees and commission expense | | (1,389) | (528) | (1,456) |
| Net trading income and foreign exchange gain, net | | 12,761 | (825) | 5,295 |
| Other operating income | | 34,243 | 886 | 16,127 |
| Total operating income | | 115,481 | 22,643 | 87,951 |
| Net impairment loss on financial assets | 4 | (16,821) | (12,675) | (14,515) |
| Net impairment loss on consolidation goodwill | 5 | (52,924) | - | - |
| Personnel expenses | | (25,066) | (9,349) | (23,513) |
| Depreciation and amortisation | | (5,793) | (2,120) | (3,996) |
| Administrative expenses | | (16,491) | (6,115) | (14,672) |
| Taxes other than on income | | (1,852) | (592) | (2,725) |
| Other expenses | | (5,154) | (455) | (1,778) |
| Total operating expenses | | (54,356) | (18,631) | (46,684) |
| (Loss) / Profit before income tax | | (8,620) | (8,663) | 26,752 |
| Income tax | | (7,296) | 648 | (3,968) |
| Net (loss) / profit for the period | | (15,916) | (8,015) | 22,784 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ
Condensed Consolidated Interim Statement of Other Comprehensive Income
For the nine-month period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

| | Reviewed | Reviewed |
|---|---------------------|---------------------|
| | 1 January– | 1 January– |
| | 30 September | 30 September |
| | 2014 | 2013 |
| Loss / (profit) for the period | (15,916) | 22,784 |
| Other comprehensive income | | |
| <i>Items that will never be reclassified to profit or loss</i> | | |
| Remeasurement of employee termination benefits | - | - |
| Related tax | - | - |
| | - | - |
| <i>Items that are or may be reclassified to profit or loss</i> | | |
| Foreign currency translation differences for foreign operations | (32,165) | (866) |
| Available-for-sale reserve | | |
| Net change in fair value of available-for-sale financial assets | 627 | (3,476) |
| Net change in fair value of available-for-sale financial assets transferred to profit or loss | 692 | 557 |
| Related tax | (264) | 584 |
| | (31,110) | (3,201) |
| Other comprehensive income for the period, net of income tax | (31,110) | (3,201) |
| Total comprehensive income for the period | (47,026) | 19,583 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Condensed Consolidated Interim Statement of Changes in Equity For the nine-month period ended 30 September 2014

(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 2013 | | 337,292 | 20,121 | 21,701 | 13,281 | 5,396 | (9,992) | 91,553 | 479,352 |
| Total comprehensive income for the period | | | | | | | | | |
| Profit for the period | | - | - | - | - | - | - | 22,784 | 22,784 |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation differences | | - | - | - | - | - | (866) | - | (866) |
| Remeasurements of defined benefit liability/(asset), net of tax | | - | - | - | - | - | - | - | - |
| Net change in fair value of available-for-sale financial assets, net of tax | | - | - | - | - | (2,335) | - | - | (2,335) |
| Total other comprehensive income | | - | - | - | - | (2,335) | (866) | - | (3,201) |
| Total comprehensive income for the period | | - | - | - | - | (2,335) | (866) | 22,784 | 19,583 |
| Contributions by and distributions to owners | | | | | | | | | |
| Dividends to equity holders | | - | - | - | - | - | - | (15,000) | (15,000) |
| Total contributions by and distributions to owners | | - | - | - | - | - | - | (15,000) | (15,000) |
| Transfers | | - | - | - | 1,427 | - | - | (1,427) | - |
| At 30 September 2013 | | 337,292 | 20,121 | 21,701 | 14,708 | 3,061 | (10,858) | 97,910 | 483,935 |
| 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 period | | | | | | | | | |
| Loss for the period | | - | - | - | - | - | - | (15,916) | (15,916) |
| Other comprehensive income | | | | | | | | | |
| Foreign currency translation differences | | - | - | - | - | - | (32,165) | - | (32,165) |
| Remeasurements of defined benefit liability/(asset), net of tax | | - | - | - | - | - | - | - | - |
| Net change in fair value of available-for-sale financial assets, net of tax | | - | - | - | - | 1,055 | - | - | 1,055 |
| Total other comprehensive income | | - | - | - | - | 1,055 | (32,165) | - | (31,110) |
| Total comprehensive income for the period | | - | - | - | - | 1,055 | (32,165) | (15,916) | (47,026) |
| Contributions by and distributions to owners | | | | | | | | | |
| Dividends to equity holders | | - | - | - | - | - | - | - | - |
| Total contributions by and distributions to owners | | - | - | - | - | - | - | - | - |
| Transfers | | - | - | - | 1,460 | - | - | (1,460) | - |
| At 30 September 2014 | | 337,292 | 20,121 | 21,701 | 16,168 | 3,695 | (42,581) | 82,953 | 439,349 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Cash Flows****For the nine-month period ended 30 September 2014***(Currency - In thousands of Turkish Lira)*

| | Reviewed | Reviewed |
|--|--------------------------|--------------------------|
| | 1 January – | 1 January – |
| <i>Note</i> | 30 September 2014 | 30 September 2013 |
| Cash flows from operating activities | | |
| Interest received | 127,591 | 114,767 |
| Interest paid | (74,180) | (60,684) |
| Fees and commissions received | 8,829 | 9,454 |
| Fees and commissions paid | (1,389) | (3,035) |
| Trading income | 1,757 | 2,058 |
| Recoveries from non-performing loans | 4 | 23,171 |
| Cash payments to employees and other parties | (25,118) | (23,438) |
| Cash received from other operating activities | 6,683 | 23,785 |
| Cash paid for other operating activities | (24,899) | (19,416) |
| Income taxes paid | (132) | (3,714) |
| | 42,313 | 62,388 |
| Change in banks and financial institutions | 490 | 41 |
| Change in trading assets | (1,568) | 563 |
| Change in reserve deposits at central banks | 45,068 | (29,223) |
| Change in loans and finance lease receivables | 205,359 | (267,010) |
| Change in other assets | (11,945) | (12,698) |
| Change in deposit from other banks | (1,599) | 630 |
| Change in customer deposits | (27,580) | 58,340 |
| Change in interbank and other money market deposits | (142,790) | 77,731 |
| Change in other liabilities | (20,380) | (10,158) |
| Net cash provided by / (used in) operating activities | 87,368 | (119,396) |
| Cash flows from investing activities | | |
| Purchases of investment securities | (47,847) | (154,470) |
| Proceeds from sale and redemption of investment securities | 147,944 | 141,441 |
| Purchases of property and equipment | (1,109) | (633) |
| Proceeds from the sale of premises and equipment | - | 17 |
| Purchases of intangible assets | (3,668) | (3,903) |
| Net cash provided by investing activities | 95,320 | (17,548) |
| Cash flows from financing activities | | |
| Proceeds from funds borrowed | 270,911 | 1,388,713 |
| Repayment of funds borrowed | (466,798) | (1,423,457) |
| Proceeds from debt securities issued | 89,000 | 334,637 |
| Repayment of debt securities issued | (70,001) | (50,000) |
| Dividends paid | - | (15,000) |
| Net cash used / (provided by) in financing activities | (176,888) | 234,893 |
| Effect of net foreign exchange difference on cash and cash equivalents | 427 | 732 |
| Net increase in cash and cash equivalents | 6,227 | 98,681 |
| Cash and cash equivalents at 1 January | 71,623 | 59,906 |
| Cash and cash equivalents at 30 September | 77,850 | 158,587 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

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BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

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

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

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

As at 30 September 2014, 69.83% (31 December 2013 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2013 – 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 Yesa Blokları Kavacık 34805 Beykoz – Istanbul / Turkey.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(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 loans 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. The Bank's subsidiary; Joint Stock Company BankPozitiv Kazakhstan ("JSC BankPozitiv") is entitled to accept deposit from public. Any deposit related financial information is solely results of the operation of JSC BankPozitiv.

JSC BankPozitiv is a commercial bank and provides general banking services to its clients, accepts deposit, grants cash and non-cash loans, provides broker/dealer services, credit cards, cash payment and other banking services for its commercial and retail customers through its head office and three branches located in Kazakhstan.

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.

As at 30 September 2014, the Bank provides services through its head office. As at 30 September 2014, the number of employees for the Bank and its consolidated subsidiaries are 130 and 228 respectively (31 December 2013 – 122 and 219).

For the purposes of the condensed consolidated interim financial information, 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 30 September 2014 and 31 December 2013 are as follows:

| | Place of incorporation | Principal activities | Effective shareholding and voting rights (%) | |
|-----------------|------------------------|-------------------------------------|--|------------------|
| | | | 30 September 2014 | 31 December 2013 |
| C Bilişim | Istanbul/Turkey | Software development and technology | 100 | 100 |
| JSC BankPozitiv | Almaty/Kazakhstan | Commercial banking activities | 100 | 100 |

2. Basis of preparation

The interim consolidated condensed financial statements as of 30 September 2014 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statement and should be read in conjunction with annual consolidated financial statements of the Group for the year ended 31 December 2013.

In preparation of the interim condensed consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of January 2014, noted below.

As of 1 February 2014, the Group has discontinued the net investment hedge for its investment in Kazakhstan due to the ineffectiveness caused by the devaluation of the Kazakhstan Tenge.

The Group started the net investment hedge as of 1 April 2014 after the stabilization of the Tenge/USD foreign exchange rates in February 2014 and March 2014.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

2. Basis of preparation (continued)

The Group classified its Hotel in Gaziantep, previously recorded in Other Assets under Assets Held for Resale, as Investment Property. The Group started to earn rental income from this property and therefore in accordance with IAS 40, the Group presented the Hotel as Investment Property. The Group selected the fair value method for the valuation of the Hotel.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the nine month period ended 30 September 2014, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

IFRS 9 Financial Instruments – Classification and measurement

As amended in December 2011, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

3. Use of judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

Measurement of fair values

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

3. Use of judgements and estimates (continued)

Measurement of fair values (continued)

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

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

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

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

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

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

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

4. Loans and finance lease receivables

| | Turkish Lira | Foreign currency | Foreign currency indexed | Total |
|--|-----------------|---------------------|--------------------------------|------------------|
| 30 September 2014 | | | | |
| Corporate loans and finance lease receivables | 242,558 | 810,969 | 153,789 | 1,207,316 |
| Consumer loans | 148,543 | 39,295 | 10,442 | 198,280 |
| Total loans | 391,101 | 850,264 | 164,231 | 1,405,596 |
| Loans and finance lease receivables in arrears | 68,506 | 31,168 | - | 99,674 |
| Less: Specific reserve for impairment | (20,514) | (13,063) | - | (33,577) |
| Less: Portfolio reserve for impairment | (15,868) | (8) | - | (15,876) |
| | 423,225 | 868,361 | 164,231 | 1,455,817 |
| 31 December 2013 | | | | |
| Corporate loans and finance lease receivables | 252,840 | 1,036,586 | 162,046 | 1,451,472 |
| Consumer loans | 152,452 | 29,996 | 14,428 | 196,876 |
| Total loans and finance lease receivables | 405,292 | 1,066,582 | 176,474 | 1,648,348 |
| Loans and finance lease receivables in arrears | 38,245 | 30,685 | - | 68,930 |
| Less: Specific reserve for impairment | (10,428) | (12,077) | - | (22,505) |
| Less: Portfolio reserve for impairment | (20,287) | (9) | - | (20,296) |
| | 412,822 | 1,085,181 | 176,474 | 1,674,477 |

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

4. Loans and finance lease receivables (continued)

As at 30 September 2014, loans and finance lease receivables with floating rates are TL 266,083 (31 December 2013 – TL 400,421) and fixed interest rates are TL 1,139,513 (31 December 2013 – TL 1,247,927).

Movements in non-performing loans and finance lease receivables:

| | 30 September 2014 | 31 December 2013 |
|--|----------------------|---------------------|
| Non-performing loans and finance lease receivables at 1 January | 68,930 | 53,337 |
| Additions to non-performing loans and finance lease receivables | 60,303 | 51,296 |
| Recoveries | (23,171) | (26,416) |
| Transfers to performing loans and finance lease receivables | - | (8,783) |
| Write-offs ⁽¹⁾ | (8,465) | (3,522) |
| Exchange rate differences | 2,077 | 3,018 |
| Non-performing loans and finance lease receivables at the end of period | 99,674 | 68,930 |

⁽¹⁾ TL 8,465 of non-performing loans and finance lease receivables were sold to an asset management company as at 30 September 2014 (31 December 2013- TL 3,521).

Movements in the reserve for possible loan losses:

| | 30 September 2014 | 31 December 2013 |
|--|----------------------|---------------------|
| Reserve at the beginning of the period | 42,801 | 32,023 |
| Provision net of recoveries | 16,821 | 26,571 |
| - Provision for loan and finance lease receivables impairment ⁽²⁾ | 30,135 | 31,106 |
| - Recoveries | (13,314) | (4,535) |
| Write-offs ⁽¹⁾ | (11,632) | (2,365) |
| Reclassification to other assets ⁽²⁾ | - | (15,161) |
| Exchange rate differences | 1,463 | 1,733 |
| Reserve at the end of the period | 49,453 | 42,801 |

⁽¹⁾ Write-offs include TL 4,673 (31 December 2013- 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 8,465 (31 December 2013- TL 3,521) as at 30 September 2014.

⁽²⁾ Provision for loan and finance lease receivables impairment includes provision for an asset that assets held for sale that was classified as a loan prior to 31 December 2013. As of 31 December 2013, the asset was reclassified to assets held for sale.

5. Intangible assets

Intangible assets consist of goodwill, purchased software and developed software.

The carrying amount of goodwill at 30 September 2014 was nil (31 December 2013 – TL 52,331).

As of 30 September 2014, impairment loss on goodwill amounting to USD 24.5 million (TL 52,924) was recognised due to changes in market conditions in Kazakhstan and changes in realized and expected cash flows of JSC BankPozitiv.

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5. Intangible assets (continued)

Reconciliation of carrying amount of goodwill

The following table sets out of the reconciliation of carrying amount of goodwill as at 30 September 2014.

| | 30 September 2014 | 31 December 2013 |
|---|-------------------|------------------|
| Cost | | |
| Balance at beginning of period | 52,331 | 43,585 |
| Exchange rate differences | 593 | 8,746 |
| Balance at the end of the period | 52,924 | 52,331 |
| Impairment losses | | |
| Balance at beginning of period | - | - |
| Impairment loss | (52,924) | - |
| Balance at the end of the period | (52,924) | - |
| Carrying amounts | | |
| Balance at beginning of period | 52,331 | 43,585 |
| Balance at the end of the period | - | 52,331 |

6. Investment property

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 65,000. The increase due the valuation amounting to TL 27,500 is accounted for under other income in the accompanying interim Statement of Profit or Loss.

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 65,000 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 1,129 (30 September 2013 – None) has been recognised in other income.

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

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

| | 1 January – 30 September 2014 | 1 January – 30 September 2013 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Balance at 1 January | - | - |
| Reclassification from other assets | 37,440 | - |
| Additions | - | - |
| Disposals | - | - |
| Accounted in other income | | |
| Change in fair value | 27,560 | - |
| Total | 65,000 | - |

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| | 30 September 2014 | | 31 December 2013 | |
|---------------------------------|-------------------|------------------|------------------|------------------|
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| Short-term⁽¹⁾ | | | | |
| Fixed interest | 15,054 | 16,992 | 40,715 | 275,237 |
| Floating interest | 20,388 | 34,172 | - | 3,896 |
| Long-term⁽¹⁾ | | | | |
| Fixed interest | - | 603,469 | - | 424,284 |
| Floating interest | - | 49,752 | - | 141,385 |
| Total | 35,442 | 704,385 | 40,715 | 844,802 |

⁽¹⁾ Based on original maturities.

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

As at 30 September 2014 and 31 December 2013, funds borrowed are unsecured.

As at 30 September 2014 and 31 December 2013, the Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants.

8. Debt securities issued

| | 30 September 2014 | | 31 December 2013 | |
|--|-------------------|------------------|------------------|------------------|
| | Turkish Lira | Foreign Currency | Turkish Lira | Foreign currency |
| Debt securities issued at amortised cost | 276,745 | 344,383 | 253,445 | 326,566 |
| Total | 276,745 | 344,383 | 253,445 | 326,566 |

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9. Capital and reserves

| | 30 September 2014 | | 31 December 2013 | |
|---|-------------------|---------------|------------------|---------------|
| Number of common shares , TL 0.1 (in full TL), par value (Authorised and issued) | 3,372,923,500 | | 3,372,923,500 | |
| Share capital and share premium | | | | |
| As at 30 September 2014 and 31 December 2013, the composition of shareholders and their respective percentage of ownership are summarised as follows: | | | | |
| | 30 September 2014 | | 31 December 2013 | |
| | 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.

At 31 March 2014, TL 1,460 of Group's profit for the year 2013 has been transferred to legal reserves by decision taken at General Assembly of the parent bank.

Other reserves

Available-for-sale reserve

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

Foreign currency translation reserve

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

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The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (31 December 2013 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial information, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

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

| | Shareholders | | Directors and key management personnel | | Others | |
|--|--------------|------|--|------|--------|------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Loans and finance lease receivables | | | | | | |
| At 1 January | - | - | 89 | - | - | - |
| At end of the period/year | - | - | 12 | 89 | - | - |
| Interest income ^(*) | - | - | 6 | - | - | - |

As at 30 September 2014, no provisions have been recognised in respect of loans and finance lease receivables given to related parties (31 December 2013 – none).

| | Shareholders | | Directors and key management personnel | | Others | |
|---------------------------------|--------------|---------|--|------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Funds borrowed | | | | | | |
| At 1 January | 192,335 | 152,620 | - | - | 72,890 | 86,381 |
| At end of the period/year | - | 192,335 | - | - | 57,612 | 72,890 |
| Interest expense ^(*) | (619) | (136) | - | - | (1,772) | (1,674) |

^(*) Interest income and interest expense in the above tables for 2013 represents the balances as of 30 September 2013.

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Other balances with related parties:

| Related party | | Due from banks | Deposits | Other assets | Other liabilities | Non-cash loans |
|--|-------------------|-----------------------|-----------------|---------------------|--------------------------|-----------------------|
| Shareholders | 30 September 2014 | - | - | - | 4 | 17,456 |
| | 31 December 2013 | - | - | - | 3 | 24,556 |
| Directors and key management personnel | 30 September 2014 | - | 31 | 1 | - | - |
| | 31 December 2013 | - | 51 | - | - | - |
| Others | 30 September 2014 | 16 | 4,050 | - | 118 | 1,210 |
| | 31 December 2013 | 339 | 5,598 | - | 90 | 1,278 |

Transactions with related parties:

| Related party | | Foreign exchange trading gain/(loss) | Other interest income | Other interest expense | Other operating income | Other operating expense |
|--|-------------------|---|------------------------------|-------------------------------|-------------------------------|--------------------------------|
| Shareholders | 30 September 2014 | - | - | - | 22 | - |
| | 30 September 2013 | 1 | - | (7) | 65 | (808) |
| Directors and key management personnel | 30 September 2014 | - | - | - | 3 | - |
| | 30 September 2013 | 1 | - | - | 1 | - |
| Others | 30 September 2014 | - | - | (129) | 3 | - |
| | 30 September 2013 | (54) | - | - | 43 | - |

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 7,892 (30 September 2013 – TL 5,091) comprising salaries and other benefits.

11. Commitments and contingencies

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

| | 30 September 2014 | 31 December 2013 |
|-----------------------------|--------------------------|-------------------------|
| Letters of guarantee | 693,252 | 790,473 |
| Letters of credit | 102,403 | 181,352 |
| Other guarantees | 26,279 | 26,183 |
| Commitments | 3,313 | 2,748 |
| Total non-cash loans | 825,247 | 1,000,756 |

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12. Financial risk management

Strategy in using financial instruments

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

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

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

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

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

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

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

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

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.

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12. Financial risk management (continued)

Strategy in using financial instruments (continued)

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.

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| 30 September 2014 | Loans and advances to customers | Loans and advances to banks | Investment securities and loaned securities | Non cash loans |
|-------------------------------|--|--|--|---------------------------|
| Neither past due nor impaired | 1,381,037 | 21,636 | 200,470 | 825,247 |
| Past due but not impaired | 24,559 | - | - | - |
| Individually impaired | 99,674 | - | - | - |
| Allowance for impairment | | | | |
| - Individual impairment | (33,577) | - | - | - |
| - Collective impairment | (15,876) | - | - | - |
| | 1,455,817 | 21,636 | 200,470 | 825,247 |

| 31 December 2013 | Loans and advances to customers | Loans and advances to banks | Investment securities and loaned securities | Non cash loans |
|-------------------------------|--|--|--|---------------------------|
| Neither past due nor impaired | 1,547,659 | 27,301 | 280,011 | 1,000,756 |
| Past due but not impaired | 100,689 | - | - | - |
| Individually impaired | 68,930 | - | - | - |
| Allowance for impairment | | | | |
| - Individual impairment | (22,505) | - | - | - |
| - Collective impairment | (20,296) | - | - | - |
| | 1,674,477 | 27,301 | 280,011 | 1,000,756 |

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.

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.

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12. Financial risk management (continued)

Credit risk (continued)

Having a reliable credit allocation function

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

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

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

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

Risk limits

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

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

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

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

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

As at 30 September 2014, the share of the Group's loan to its top 20 credit customers in its total loan portfolio is 38% (31 December 2013 – 35%).

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12. Financial risk management (continued)

Measuring risk

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

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

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

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

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

Monitoring the risk

Under the risk management department, a credit review unit is established to make independent review of the credit portfolio. Credit review unit's functions include the assessment of the quality of the Group's credit portfolio; evaluation of rating credibility of the designated borrowers, giving appropriate weight to the monitoring of problem borrowers. The evaluations are independent from the credit approving authorities, and conclude in a credit rating in the scale of AAA-D.

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

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

| 30 September 2014 | Cash loans | Non-cash loans | Total |
|---|-------------------|-----------------------|------------------|
| Electric production and supply | 177,830 | 126,426 | 304,256 |
| Other commercial services | 201,325 | 33,839 | 235,164 |
| Public works and civil engineering | 177,199 | 43,857 | 221,056 |
| Consumer loans | 196,523 | 1,989 | 198,512 |
| Personal other services | 101,066 | 79,397 | 180,463 |
| Trade | 27,803 | 129,485 | 157,288 |
| Holding companies | 124,105 | 11,915 | 136,020 |
| Building contractor (general and special trade) | 63,549 | 68,224 | 131,773 |
| Metal and by-products | 44,480 | 77,055 | 121,535 |
| Other financial institutions | 42,741 | 74,783 | 117,524 |
| Tourism and entertainment | 102,513 | 11,731 | 114,244 |
| Transportation | 55,453 | 12,043 | 67,496 |
| Textile and clothing | 34,259 | 15,477 | 49,736 |
| Machinery and equipment | 6,560 | 41,797 | 48,357 |
| Commercial, mortgage, investment finance banks | - | 34,195 | 34,195 |
| Chemical and oil products | 12,398 | 15,881 | 28,279 |
| Electrical and electronic equipment | - | 17,971 | 17,971 |
| Food, beverage and tobacco industries | 1,595 | 8,554 | 10,149 |
| Mineral Products | 8,037 | - | 8,037 |
| Agriculture and forestry | - | 7,792 | 7,792 |
| Others | 6,852 | 12,836 | 19,688 |
| Total performing loans | 1,384,288 | 825,247 | 2,209,535 |
| Interest accruals | 21,308 | - | 21,308 |
| Loans in arrears | 99,674 | - | 99,674 |
| Provision for possible loan losses | (49,453) | - | (49,453) |
| Total loans | 1,455,817 | 825,247 | 2,281,064 |

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| 31 December 2013 | Cash loans | Non-cash loans | Total |
|---|-----------------------|---------------------------|------------------|
| Electric production and supply | 189,415 | 210,563 | 399,978 |
| Building contractor (general and special trade) | 106,863 | 130,661 | 237,524 |
| Personal other services | 151,229 | 68,836 | 220,065 |
| Other commercial services | 184,928 | 33,333 | 218,261 |
| Public works and civil engineering | 185,993 | 25,981 | 211,974 |
| Consumer loans | 194,772 | 2,535 | 197,307 |
| Trade | 61,175 | 129,427 | 190,602 |
| Tourism and entertainment | 163,551 | 12,433 | 175,984 |
| Metal and by-products | 39,060 | 96,896 | 135,956 |
| Other financial institutions | 59,620 | 75,929 | 135,549 |
| Holding companies | 89,921 | 12,159 | 102,080 |
| Agriculture and forestry | 52,122 | 13,876 | 65,998 |
| Electrical and electronic equipment | - | 62,171 | 62,171 |
| Transportation | 35,768 | 11,661 | 47,429 |
| Commercial, mortgage, investment finance banks | - | 44,236 | 44,236 |
| Textile and clothing | 27,879 | 6,885 | 34,764 |
| Manufacture of transport equipment | 30,611 | 3,984 | 34,595 |
| Machinery and equipment | 7,133 | 27,173 | 34,306 |
| Chemical and oil products | 21,700 | 9,927 | 31,627 |
| Food, beverage and tobacco industries | 3,729 | 8,571 | 12,300 |
| Mining and quarrying | 2,634 | - | 2,634 |
| Others | 15,253 | 13,519 | 28,772 |
| Total performing loans | 1,623,356 | 1,000,756 | 2,624,112 |
| Interest accruals | 24,992 | - | 24,992 |
| Loans in arrears | 68,930 | - | 68,930 |
| Provision for possible loan losses | (42,801) | - | (42,801) |
| Total loans | 1,674,477 | 1,000,756 | 2,675,233 |

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Financial Statements****As at and for the period ended 30 September 2014***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)***Monitoring the risk (continued)*

Total collateralisation coverage of cash and non-cash loans are 80% as at 30 September 2014 (31 December 2013 – 84%).

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

| | 30 September 2014 | 31 December 2013 |
|--|--------------------------|-------------------------|
| Cash loans (including financial lease receivables) under loan in arrears | | |
| Secured by mortgages | 53,749 | 38,219 |
| Secured by pledge | 16,947 | 4,433 |
| Secured by guarantee | 1,387 | 1,360 |
| Secured by assignment and cheques | 10,815 | 3,329 |
| Unsecured | 16,776 | 21,589 |
| Total | 99,674 | 68,930 |
| Cash loans (including financial lease receivables) except loan in arrears | | |
| Secured by cash | 14,386 | 6,507 |
| Secured by mortgages | 470,101 | 615,226 |
| Secured by pledge | 112,345 | 105,918 |
| Secured by guarantee | 352,163 | 491,396 |
| Secured by assignment and cheques | 202,885 | 228,944 |
| Unsecured | 253,716 | 200,357 |
| Total | 1,405,596 | 1,648,348 |
| Non-cash loans | | |
| Secured by cash | 20,399 | 35,862 |
| Secured by mortgages | 36,688 | 49,241 |
| Secured by pledge | 38,269 | 58,298 |
| Secured by guarantee | 440,785 | 589,031 |
| Secured by assignment and cheques | 90,957 | 54,550 |
| Unsecured | 198,149 | 213,774 |
| Total | 825,247 | 1,000,756 |

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Liquidity risk

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

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

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Liquidity risk (continued)

| 30 September 2014 | On demand | 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 | Unallocated | Total |
|---|----------------|------------------|---------------|-----------------|--------------------|----------------|----------------|------------------|---------------|----------------|----------------|------------------|
| Assets | | | | | | | | | | | | |
| Cash and balances with central banks | 37,822 | 12,532 | - | - | - | - | - | - | - | - | - | 50,354 |
| Due from banks and financial institutions | 20,362 | 949 | - | 2 | 323 | - | - | - | - | - | - | 21,636 |
| Interbank and other money market placements | 6,266 | - | - | - | - | - | - | - | - | - | - | 6,266 |
| Reserve deposits at central banks | 22,789 | 92,889 | - | - | - | - | - | - | - | - | - | 115,678 |
| Trading assets | - | 2,386 | 1,548 | 5,271 | 3,607 | 2,879 | - | - | - | 1,132 | - | 16,823 |
| Investment securities | - | 103,431 | 152 | 10,251 | 38,954 | 5,302 | 6,999 | 1,308 | 2,294 | 15,659 | 28 | 184,378 |
| Loaned securities | - | 1,628 | - | 3,428 | 9,489 | - | - | - | - | 1,547 | - | 16,092 |
| Loans and finance lease receivables | - | 89,015 | 79,144 | 99,807 | 329,310 | 363,302 | 174,721 | 125,680 | 58,061 | 91,004 | 45,773 | 1,455,817 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | 7,750 | 7,750 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | 13,555 | 13,555 |
| Deferred tax assets | - | - | - | - | - | - | - | - | - | - | 8,673 | 8,673 |
| Investment property | - | - | - | - | - | - | - | - | - | - | 65,000 | 65,000 |
| Other assets | - | 24,571 | - | 487 | - | - | - | - | - | - | 13,108 | 38,166 |
| Total assets | 87,239 | 327,401 | 80,844 | 119,246 | 381,683 | 371,483 | 181,720 | 126,988 | 60,355 | 109,342 | 153,887 | 2,000,188 |
| Liabilities | | | | | | | | | | | | |
| Deposit from other banks ⁽¹⁾ | 519 | - | - | - | 3,531 | - | - | - | - | - | - | 4,050 |
| Customer deposits ⁽¹⁾ | 73,967 | 3,022 | 2,478 | 4,474 | 5,938 | 140 | 4,956 | 1 | 273 | - | - | 95,249 |
| Other money market deposits | - | 16,063 | - | - | - | - | - | - | - | - | - | 16,063 |
| Trading liabilities | - | 3,124 | 1,692 | 16,931 | 873 | 3,519 | - | 4 | - | - | - | 26,143 |
| Funds borrowed | - | 386,740 | - | 15,373 | 141,147 | 62,455 | 91,552 | 19,799 | 1,980 | 20,781 | - | 739,827 |
| Debt securities issued | - | 2,570 | 59,944 | 127,779 | 39,000 | 50,000 | 0 | 341,835 | - | - | - | 621,128 |
| Other liabilities | 19,946 | 17,049 | 8,683 | 3,370 | - | - | - | - | - | 663 | 1,576 | 51,287 |
| Provisions | - | 3,287 | 152 | - | - | - | - | - | - | - | 3,519 | 6,958 |
| Current tax liabilities | - | - | 134 | - | - | - | - | - | - | - | - | 134 |
| Total liabilities | 94,432 | 431,855 | 73,083 | 167,927 | 190,489 | 116,114 | 96,508 | 361,639 | 2,253 | 21,444 | 5,095 | 1,560,839 |
| Net liquidity gap | (7,193) | (104,454) | 7,761 | (48,681) | 191,194 | 255,369 | 85,212 | (234,651) | 58,102 | 87,898 | 148,792 | 439,349 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Financial Statements

As at and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Liquidity risk (continued)

| 31 December 2013 | On Demand | 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 | Unallocated | Total |
|---|---------------|------------------|----------------|----------------|--------------------|----------------|----------------|---------------|------------------|----------------|----------------|------------------|
| Assets | | | | | | | | | | | | |
| Cash and balances with central banks | 27,208 | - | - | - | - | - | - | - | - | - | - | 27,208 |
| Due from banks and financial institutions | 26,209 | 785 | 4 | 302 | 1 | - | - | - | - | - | - | 27,301 |
| Interbank and other money market placements | - | 18,010 | - | - | - | - | - | - | - | - | - | 18,010 |
| Reserve deposits at central banks | 21,343 | 139,403 | - | - | - | - | - | - | - | - | - | 160,746 |
| Trading assets | - | 887 | 217 | 1,902 | 460 | 1,495 | 488 | 476 | - | - | - | 5,925 |
| Investment securities | - | 2,862 | 29,240 | 14,162 | 39,815 | 25,675 | 1,897 | 4,816 | 302 | 7,291 | 30 | 126,090 |
| Loaned securities | - | 4,368 | 28,623 | 920 | 90,105 | 12,133 | - | 3,517 | - | 14,255 | - | 153,921 |
| Loans and finance lease receivables | - | 66,333 | 105,878 | 224,158 | 415,693 | 381,677 | 203,223 | 90,375 | 65,952 | 95,056 | 26,132 | 1,674,477 |
| Property and equipment | - | - | - | - | - | - | - | - | - | - | 9,004 | 9,004 |
| Intangible assets | - | - | - | - | - | - | - | - | - | - | 64,709 | 64,709 |
| Current tax assets | - | - | - | - | - | - | - | - | - | - | 2,284 | 2,284 |
| Deferred tax assets | - | - | - | - | - | - | - | - | - | - | 11,867 | 11,867 |
| Other assets | - | 18,145 | - | - | - | - | - | - | - | - | 43,232 | 61,377 |
| Total assets | 74,760 | 250,793 | 163,962 | 241,444 | 546,074 | 420,980 | 205,608 | 99,184 | 66,254 | 116,602 | 157,258 | 2,342,919 |
| Liabilities | | | | | | | | | | | | |
| Deposit from other banks ⁽¹⁾ | 220 | 2,225 | - | - | 3,204 | - | - | - | - | - | - | 5,649 |
| Customer deposits ⁽¹⁾ | 57,579 | 39,878 | 690 | 14,752 | 5,635 | 719 | 3,575 | - | 1 | - | - | 122,829 |
| Other money market deposits | - | 158,903 | - | - | - | - | - | - | - | - | - | 158,903 |
| Trading liabilities | - | 1,405 | 3,477 | 13,899 | 244 | 6,394 | - | - | 7 | - | - | 25,426 |
| Funds borrowed | - | 162,931 | 104,334 | 48,494 | 461,217 | 53,089 | 23,724 | 23,724 | 8,004 | - | - | 885,517 |
| Debt securities issued | - | 1,284 | 7,168 | 70,669 | 55,745 | 125,000 | - | - | 320,145 | - | - | 580,011 |
| Other liabilities | 15,175 | 42,362 | - | - | 8,820 | 3,793 | - | - | - | 599 | 469 | 71,218 |
| Provisions | - | 3,923 | 152 | - | 1,643 | - | - | - | - | - | 1,109 | 6,827 |
| Current tax liabilities | - | - | 132 | - | - | - | - | - | - | - | - | 132 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | - | 32 | 32 |
| Total liabilities | 72,974 | 412,911 | 115,953 | 147,814 | 536,508 | 188,995 | 27,299 | 23,724 | 328,157 | 599 | 1,610 | 1,856,544 |
| Net liquidity gap | 1,786 | (162,118) | 48,009 | 93,630 | 9,566 | 231,985 | 178,309 | 75,460 | (261,903) | 116,003 | 155,648 | 486,375 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

12. 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 30 September 2014, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 94 (31 December 2013 – TL 212) for one day.

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

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

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

Currency risk

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2014***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Currency risk (continued)**

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

| 30 September 2014 | USD | Euro | CHF | JPY | KZT | Others | Total |
|--|------------------|-----------------|--------------|--------------|----------------|---------------|------------------|
| Assets | | | | | | | |
| Cash and balances with central banks | 22,372 | 329 | - | - | 27,590 | 6 | 50,297 |
| Due from banks and financial institutions | 18,257 | 1,174 | 92 | 110 | 5 | 488 | 20,126 |
| Interbank and other money market placements | - | - | - | - | 6,266 | - | 6,266 |
| Reserve deposits at central Banks | 106,524 | - | - | - | 2,749 | - | 109,273 |
| Investment securities | 3,679 | - | - | - | 28 | - | 3,707 |
| Loans and finance lease receivables ⁽¹⁾ | 685,883 | 194,598 | 6,432 | 2,145 | 143,419 | 115 | 1,032,592 |
| Property and equipment | - | - | - | - | 4,287 | - | 4,287 |
| Intangible assets | - | - | - | - | 2,823 | - | 2,823 |
| Deferred tax assets | - | - | - | - | 19 | - | 19 |
| Other assets | 22,537 | 20 | 3 | - | 6,352 | 4 | 28,916 |
| Total assets | 859,252 | 196,121 | 6,527 | 2,255 | 193,538 | 613 | 1,258,306 |
| Liabilities | | | | | | | |
| Deposit from other banks ⁽²⁾ | 3,536 | 5 | - | - | 505 | 4 | 4,050 |
| Customer deposits ⁽²⁾ | 44,144 | 1,384 | - | - | 49,508 | 213 | 95,249 |
| Funds borrowed | 450,770 | 253,615 | - | - | - | - | 704,385 |
| Debt securities issued | 344,383 | - | - | - | - | - | 344,383 |
| Other liabilities | 19,686 | 10,956 | 113 | - | 1,035 | 3 | 31,793 |
| Provisions | - | - | - | - | 101 | - | 101 |
| Total liabilities | 862,519 | 265,960 | 113 | - | 51,149 | 220 | 1,179,961 |
| Gross exposure | (3,267) | (69,839) | 6,414 | 2,255 | 142,389 | 393 | 78,345 |
| Off-balance sheet position | | | | | | | |
| Net notional amount of derivatives | (141,682) | 70,009 | (6,390) | (2,208) | - | (222) | (80,493) |
| Net exposure | (144,949) | 170 | 24 | 47 | 142,389 | 171 | (2,148) |

⁽¹⁾ Foreign currency net non-performing loans and finance lease receivables amounting TL 18,097 is included at foreign currency position, respectively.

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Currency risk (continued)

| 31 December 2013 | USD | Euro | CHF | JPY | KZT | Others | Total |
|--|------------------|-----------------|----------------|--------------|----------------|------------|------------------|
| Assets | | | | | | | |
| Cash and balances with central banks | 830 | 186 | - | - | 26,111 | 41 | 27,168 |
| Due from banks and financial institutions | 23,227 | 513 | 1,016 | 318 | 8 | 722 | 25,804 |
| Other money market placements | - | - | - | - | 18,010 | - | 18,010 |
| Reserve deposits at central Banks | 132,369 | - | - | - | 3,659 | - | 136,028 |
| Trading assets | 4,170 | - | 30 | 81 | - | - | 4,281 |
| Investment securities | 3,226 | - | - | - | 30 | - | 3,256 |
| Loans and finance lease receivables ⁽¹⁾ | 705,312 | 360,602 | 9,111 | 2,837 | 183,483 | 126 | 1,261,471 |
| Property and equipment | - | - | - | - | 5,904 | - | 5,904 |
| Intangible assets | 52,331 | - | - | - | 2,323 | - | 54,654 |
| Deferred tax assets | - | - | - | - | 953 | - | 953 |
| Other assets | 10,911 | 1,220 | 9 | - | 8,607 | 13 | 20,760 |
| Total assets | 932,376 | 362,521 | 10,166 | 3,236 | 249,088 | 902 | 1,558,289 |
| Liabilities | | | | | | | |
| Deposit from other banks ⁽²⁾ | 5,428 | 5 | - | - | 212 | 4 | 5,649 |
| Customer deposits ⁽²⁾ | 31,920 | 251 | - | - | 90,169 | 489 | 122,829 |
| Trading liabilities | 17,486 | 43 | 3,336 | - | - | - | 20,865 |
| Funds borrowed | 628,477 | 216,325 | - | - | - | - | 844,802 |
| Debt securities issued | 326,566 | - | - | - | - | - | 326,566 |
| Other liabilities | 23,629 | 11,333 | 180 | - | 1,101 | 33 | 36,276 |
| Provisions | - | - | - | - | 131 | - | 131 |
| Total liabilities | 1,033,506 | 227,957 | 3,516 | - | 91,613 | 526 | 1,357,118 |
| Gross exposure | (101,130) | 134,564 | 6,650 | 3,236 | 157,475 | 376 | 201,171 |
| Off-balance sheet position | | | | | | | |
| Net notional amount of derivatives | (67,445) | (169,302) | (9,976) | (3,118) | - | (211) | (250,052) |
| Net exposure | (168,575) | (34,738) | (3,326) | 118 | 157,475 | 165 | (48,881) |

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

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(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Currency risk (continued)

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 30 September 2014 and 31 December 2013 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| 30 September 2014 | Equity | Profit or loss |
|--------------------------|----------------|-----------------------|
| USD | (14,487) | (14,495) |
| EUR | 17 | 17 |
| Other currencies | 14,263 | 14,263 |
| | (207) | (215) |
| 31 December 2013 | Equity | Profit or loss |
| USD | (16,853) | (16,857) |
| EUR | (3,474) | (3,474) |
| Other currencies | 15,443 | 15,443 |
| | (4,884) | (4,888) |

A 10% strengthening of the TL against the foreign currencies at 30 September 2014 and 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Cash flow and fair value interest rate risk

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

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

| 30 September 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 | 12,532 | - | - | - | - | - | - | - | - | 37,822 | 50,354 |
| Due from banks and financial institutions | 949 | - | 2 | 323 | - | - | - | - | - | 20,362 | 21,636 |
| Interbank and other money market placements | 6,266 | - | - | - | - | - | - | - | - | - | 6,266 |
| Reserve deposits at central banks | - | - | - | - | - | - | - | - | - | 115,678 | 115,678 |
| Trading assets | 10,013 | 2,392 | 1,187 | 1,366 | 945 | 780 | 140 | - | - | - | 16,823 |
| Investment securities | 142,107 | 990 | 37,840 | - | 3,413 | - | - | - | - | 28 | 184,378 |
| Loaned securities | 11,118 | - | 4,974 | - | - | - | - | - | - | - | 16,092 |
| Loans and finance lease receivables | 260,222 | 81,931 | 87,298 | 194,955 | 352,228 | 166,838 | 117,726 | 54,904 | 89,484 | 50,231 | 1,455,817 |
| Property and equipment | - | - | - | - | - | - | - | - | - | 7,750 | 7,750 |
| Intangible assets | - | - | - | - | - | - | - | - | - | 13,555 | 13,555 |
| Deferred tax assets | - | - | - | - | - | - | - | - | - | 8,673 | 8,673 |
| Investment property | - | - | - | - | - | - | - | - | - | 65,000 | 65,000 |
| Other assets | - | - | 487 | - | - | - | - | - | - | 37,679 | 38,166 |
| Total assets | 443,207 | 85,313 | 131,788 | 196,644 | 356,586 | 167,618 | 117,866 | 54,904 | 89,484 | 356,778 | 2,000,188 |
| Liabilities | | | | | | | | | | | |
| Deposit from other banks ⁽¹⁾ | - | - | - | 3,531 | - | - | - | - | - | 519 | 4,050 |
| Customer deposits ⁽¹⁾ | 3,022 | 2,478 | 4,474 | 5,938 | 140 | 4,956 | 1 | 273 | - | 73,967 | 95,249 |
| Other money market deposits | 16,063 | - | - | - | - | - | - | - | - | - | 16,063 |
| Trading liabilities | 3,124 | 1,692 | 16,931 | 873 | 3,519 | - | 4 | - | - | - | 26,143 |
| Funds borrowed | 386,740 | 79,042 | 44,651 | 64,711 | 143,901 | 3 | 2 | - | 20,777 | - | 739,827 |
| Debt securities issued | 2,572 | 59,943 | 127,779 | 39,000 | 50,000 | - | 341,834 | - | - | - | 621,128 |
| Other liabilities | 12,435 | 8,684 | 3,370 | - | - | - | - | - | 663 | 26,135 | 51,287 |
| Provisions | - | - | - | - | - | - | - | - | - | 6,958 | 6,958 |
| Current tax liabilities | - | - | - | - | - | - | - | - | - | 134 | 134 |
| Total liabilities | 423,956 | 151,839 | 197,205 | 114,053 | 197,560 | 4,959 | 341,841 | 273 | 21,440 | 107,713 | 1,560,839 |
| Financial position interest sensitivity gap | 19,251 | (66,526) | (65,417) | 82,591 | 159,026 | 162,659 | (223,975) | 54,631 | 68,044 | 249,065 | 439,349 |
| Off-balance sheet interest sensitivity gap, net | - | - | - | (20,332) | - | - | - | - | - | - | (20,332) |
| Total interest sensitivity gap | 19,251 | (66,526) | (65,417) | 62,259 | 159,026 | 162,659 | (223,975) | 54,631 | 68,044 | 249,065 | 419,017 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2014

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

| 31 December 2013 | 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 | - | - | - | - | - | - | - | - | - | 27,208 | 27,208 |
| Due from banks and financial institutions | 785 | 4 | 302 | 1 | - | - | - | - | - | 26,209 | 27,301 |
| Interbank and other money market placements | 18,010 | - | - | - | - | - | - | - | - | - | 18,010 |
| Reserve deposits at central banks | - | - | - | - | - | - | - | - | - | 160,746 | 160,746 |
| Trading assets | 917 | 211 | 2,399 | 459 | 975 | 488 | 476 | - | - | - | 5,925 |
| Investment securities | 11,182 | 39,542 | 72,141 | - | 3,195 | - | - | - | - | 30 | 126,090 |
| Loaned securities | 25,244 | 36,522 | 92,155 | - | - | - | - | - | - | - | 153,921 |
| Loans and finance lease receivables | 283,098 | 101,530 | 241,490 | 315,309 | 326,799 | 173,214 | 76,239 | 51,455 | 79,211 | 26,132 | 1,674,477 |
| Property and equipment | - | - | - | - | - | - | - | - | - | 9,004 | 9,004 |
| Intangible assets | - | - | - | - | - | - | - | - | - | 64,709 | 64,709 |
| Current tax assets | - | - | - | - | - | - | - | - | - | 2,284 | 2,284 |
| Deferred tax assets | - | - | - | - | - | - | - | - | - | 11,867 | 11,867 |
| Other assets | - | - | - | - | - | - | - | - | - | 61,377 | 61,377 |
| Total assets | 339,236 | 177,809 | 408,487 | 315,769 | 330,969 | 173,702 | 76,715 | 51,455 | 79,211 | 389,566 | 2,342,919 |
| Liabilities | | | | | | | | | | | |
| Deposit from other banks ⁽¹⁾ | 2,225 | - | - | 3,204 | - | - | - | - | - | 220 | 5,649 |
| Customer deposits ⁽¹⁾ | 39,878 | 690 | 14,752 | 5,635 | 719 | 3,575 | - | 1 | - | 57,579 | 122,829 |
| Other money market deposits | 158,903 | - | - | - | - | - | - | - | - | - | 158,903 |
| Trading liabilities | 1,405 | 3,477 | 13,899 | 244 | 6,394 | - | - | 7 | - | - | 25,426 |
| Funds borrowed | 197,968 | 183,019 | 43,159 | 432,006 | 29,365 | - | - | - | - | - | 885,517 |
| Debt securities issued | - | 6,176 | 72,945 | 55,745 | 125,000 | - | - | 320,145 | - | - | 580,011 |
| Other liabilities | 37,083 | 8,819 | - | - | 3,179 | - | - | - | 599 | 21,538 | 71,218 |
| Provisions | - | - | - | - | - | - | - | - | - | 6,827 | 6,827 |
| Current tax liabilities | - | - | - | - | - | - | - | - | - | 132 | 132 |
| Deferred tax liabilities | - | - | - | - | - | - | - | - | - | 32 | 32 |
| Total liabilities | 437,462 | 202,181 | 144,755 | 496,834 | 164,657 | 3,575 | - | 320,153 | 599 | 86,328 | 1,856,544 |
| Financial position interest sensitivity gap | (98,226) | (24,372) | 263,732 | (181,065) | 166,312 | 170,127 | 76,715 | (268,698) | 78,612 | 303,238 | 486,375 |
| Off-balance sheet interest sensitivity gap, net | 124,352 | (2,629) | (11,111) | 217 | (130,842) | 516 | 514 | (6) | - | - | (18,989) |
| Total interest sensitivity gap | 26,126 | (27,001) | 252,621 | (180,848) | 35,470 | 170,643 | 77,229 | (268,704) | 78,612 | 303,238 | 467,386 |

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2014***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)**

As at 30 September 2014 and 31 December 2013, the effective interest rate applied on balance sheet items summarised as follows:

| 30 September 2014 (%) | TL | USD | EUR | CHF | JPY | GBP | KZT |
|--|-----------|------------|------------|------------|------------|------------|------------|
| Due from banks and financial institutions | 8.65 | 0.16 | 0.01 | - | - | - | - |
| Interbank and other money market placements | - | - | - | - | - | - | 2.84 |
| Marketable securities (Investment and trading) | 14.99 | 9.63 | - | - | - | - | - |
| Loans and finance lease receivables | | | | | | | |
| - Corporate loans | 16.32 | 7.80 | 5.34 | - | - | - | 9.43 |
| - Retail loans | 16.95 | 9.29 | 8.38 | 7.37 | 6.37 | 11.43 | 14.25 |
| Deposits from other banks | - | 4.25 | - | - | - | - | - |
| Customer deposits | - | 2.75 | - | - | 3.73 | - | 4.83 |
| Other money market deposits | 9.73 | - | - | - | - | - | - |
| Funds borrowed and debt securities issued | 9.87 | 5.29 | 3.33 | - | - | - | - |
| Current account of loan customers ⁽¹⁾ | 7.45 | 3.35 | 4.05 | - | - | - | - |
| 31 December 2013 (%) | TL | USD | EUR | CHF | JPY | GBP | KZT |
| Due from banks and financial institutions | 6.67 | 0.19 | 0.06 | - | - | - | - |
| Interbank and other money market placements | 7.27 | - | - | - | - | - | 3.35 |
| Marketable securities (Investment and trading) | 7.47 | 9.63 | - | - | - | - | - |
| Loans and finance lease receivables | | | | | | | |
| - Corporate loans | 14.35 | 6.96 | 6.42 | - | - | - | 8.44 |
| - Retail loans | 17.39 | 9.44 | 8.70 | 7.89 | 6.34 | 11.41 | 14.61 |
| Deposits from other banks | - | 4.54 | - | - | - | - | - |
| Customer deposits | - | 4.17 | - | - | 3.00 | - | 6.11 |
| Other money market deposits | 4.61 | - | - | - | - | - | - |
| Funds borrowed and debt securities issued | 9.30 | 5.20 | 3.52 | - | - | - | - |
| Current account of loan customers ⁽¹⁾ | 5.98 | 3.16 | 0.80 | - | - | - | - |

⁽¹⁾ Included in other liabilities.

Internal capital adequacy assessment process

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2014***(Currency - In thousands of Turkish Lira)***12. 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 (%) | 30 September 2014 | 31 December 2013 |
|---|--------------------------|-------------------------|
| Local TL interest rate | | |
| +500 bps | (3.79) | (1.81) |
| -400 bps | 4.31 | 1.86 |
| Foreign currency interest rate | | |
| +200 bps EUR | (0.95) | (1.62) |
| -200 bps EUR | 0.31 | 0.71 |
| +200 bps USD | 0.05 | 1.85 |
| -200 bps USD | (0.21) | (1.79) |

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Regulatory capital and the capital adequacy ratio declared by the Group as 30 September 2014 and 31 December 2013 is as follows:

| | 30 September 2014 | 31 December 2013 |
|---|------------------------------|-----------------------------|
| Amount subject to credit risk (I) | 2,067,263 | 2,229,200 |
| Amount subject to market risk (II) | 197,725 | 254,170 |
| Amount subject to operational risk (III) | 158,475 | 158,326 |
| Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+III) | 2,423,463 | 2,641,696 |
| Shareholders' equity | 431,078 | 436,156 |
| Capital adequacy ratio | 17.79% | 16.51% |

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2014***(Currency - In thousands of Turkish Lira)***13. Fair value of financial instruments****Financial instruments measured at fair value – fair value hierarchy**

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

| 30 September 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|----------------|----------------|----------------|
| Trading assets | 2,738 | 14,085 | - | 16,823 |
| Investment and loaned securities ⁽¹⁾ | 200,442 | - | - | 200,442 |
| | 203,180 | 14,085 | - | 217,265 |
| Trading liabilities | - | 26,143 | - | 26,143 |
| | - | 26,143 | - | 26,143 |
| 31 December 2013 | Level 1 | Level 2 | Level 3 | Total |
| Trading assets | 811 | 5,114 | - | 5,925 |
| Investment and loaned securities ⁽¹⁾ | 279,981 | - | - | 279,981 |
| | 280,792 | 5,114 | - | 285,906 |
| Trading liabilities | - | 25,426 | - | 25,426 |
| | - | 25,426 | - | 25,426 |

⁽¹⁾ As at 30 September 2014, securities that are not publicly traded amounting to TL 28 have been measured at cost and are excluded from the table (31 December 2013 – TL 30).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2014

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14. Operating segments

The Group has five reportable segments, namely asset management and treasury, corporate banking, retail banking, foreign financial subsidiary (includes activities of JSC BankPozitiv) 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.

| 30 September 2014 | Asset management and treasury | Corporate banking | Retail banking | Foreign financial subsidiary | Non-financial services | Eliminations | Total |
|---|-------------------------------|-------------------|----------------|------------------------------|------------------------|------------------|------------------|
| Interest income | 37,151 | 70,151 | 19,837 | 14,577 | 18 | - | 141,734 |
| Interest expense | (77,746) | (1,390) | - | (1,561) | - | - | (80,697) |
| Intersegment revenue | 24,303 | (22,585) | (1,718) | - | - | - | - |
| Net interest income | (16,292) | 46,176 | 18,119 | 13,016 | 18 | - | 61,037 |
| Net fee and commission income | (275) | 6,338 | (82) | 1,459 | - | - | 7,440 |
| Net trading income and foreign exchange gain, net | 10,562 | 818 | 10 | 1,357 | 14 | - | 12,761 |
| Other operating income | 10,230 | 23,925 | 17 | 207 | 3,292 | (3,428) | 34,243 |
| Total operating income | 4,225 | 77,257 | 18,064 | 16,039 | 3,324 | (3,428) | 115,481 |
| Net impairment loss on financial and non-financial assets and on consolidation goodwill | (52,292) | (11,081) | (5,356) | (1,016) | - | - | (69,745) |
| Total operating expense | (11,904) | (15,491) | (13,678) | (12,495) | (3,189) | 2,401 | (54,356) |
| Profit / (Loss) before income tax | (59,971) | 50,685 | (970) | 2,528 | 135 | (1,027) | (8,620) |
| Income tax | (6,125) | - | - | (1,144) | (27) | - | (7,296) |
| Net loss for the period | (66,096) | 50,685 | (970) | 1,384 | 108 | (1,027) | (15,916) |
| Total assets | 658,372 | 1,134,836 | 165,412 | 251,278 | 6,078 | (215,788) | 2,000,188 |
| Total liabilities | 1,388,324 | 75,700 | 3,832 | 108,517 | 888 | (16,422) | 1,560,839 |

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 September 2014***(Currency - In thousands of Turkish Lira)***14. Operating segments (continued)**

| 30 September 2013 | Asset management and treasury | Corporate banking | Retail banking | Foreign financial subsidiary | Non-financial services | Eliminations | Total |
|--|--|------------------------------|-----------------------|---|-----------------------------------|---------------------|------------------|
| Interest income | 28,071 | 68,334 | 19,000 | 12,258 | 2 | - | 127,665 |
| Interest expense | (67,248) | (543) | - | (1,389) | - | - | (69,180) |
| Intersegment revenue | 30,209 | (28,274) | (1,935) | - | - | - | - |
| Net interest income | (8,968) | 39,517 | 17,065 | 10,869 | 2 | - | 58,485 |
| Net fee and commission income | (519) | 6,776 | (199) | 1,986 | - | - | 8,044 |
| Net trading income and foreign exchange gain, net | 4,187 | 183 | - | 925 | 21 | (21) | 5,295 |
| Other operating income | 923 | 14,745 | 125 | 138 | 2,401 | (2,205) | 16,127 |
| Total operating income | (4,377) | 61,221 | 16,991 | 13,918 | 2,424 | (2,226) | 87,951 |
| Net impairment loss on financial and non-financial assets and on consolidation goodwill | (176) | (12,250) | (2,203) | 114 | - | - | (14,515) |
| Total operating expense | (8,728) | (14,256) | (11,938) | (12,155) | (1,812) | 2,205 | (46,684) |
| Profit / (Loss) before income tax | (13,281) | 34,715 | 2,850 | 1,877 | 612 | (21) | 26,752 |
| Income tax | (3,427) | - | - | (430) | (115) | 4 | (3,968) |
| Net profit for the period | (16,708) | 34,715 | 2,850 | 1,447 | 497 | (17) | 22,784 |
| Total assets⁽¹⁾ | 737,389 | 1,331,089 | 175,552 | 294,924 | 5,986 | (202,021) | 2,342,919 |
| Total liabilities⁽¹⁾ | 1,651,589 | 94,304 | 3,741 | 137,319 | 903 | (31,312) | 1,856,544 |

⁽¹⁾ As at 31 December 2013.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

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15. Rating

As at 30 September 2014, the Bank's ratings assigned by international rating agency, Fitch Ratings is as follows:

Fitch Ratings, July 2014

| | |
|---------------------------------|--------------------|
| 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 | AAA (tur) (Stable) |

16. Subsequent and other events

The Bank has issued bond in local market amounting to TL 50 million (full), TL 26.18 million (full) and 46.6 million (full) with a term of 546 days on 2 October 2014, 546 days on 5 November 2014 and 179 days on 5 November 2014 respectively.

The Bank paid back its borrowing amounting to USD 152,4 million (full) on 28 October 2014.