

# **PASHA YATIRIM BANKASI A.Ş.**

**UNAUDITED INTERIM CONDENSED  
FINANCIAL STATEMENTS**

**AT 30 JUNE 2016 TOGETHER WITH INDEPENDENT  
AUDITOR'S REVIEW REPORT**

## **Report on review of interim condensed financial statements**

**To the Board of Directors of Pasha Yatırım Bankası A.Ş.**

### **Introduction**

We have reviewed the accompanying interim condensed financial statements of Pasha Yatırım Bankası A.Ş. ("the Bank") as at 30 June 2016, comprising of interim statement of financial position as at 30 June 2016 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed financial statements 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. Consequently it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

### **Other Matter**

The financial statements of the Bank as of December 31, 2015 and June 30, 2015 were audited and reviewed by another an independent audit firm, who expressed an unqualified opinion and conclusion in their audit and review reports dated March 8, 2016 and August 17, 2015 respectively.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi  
A member firm of Ernst & Young Global Limited



22 August 2016  
İstanbul, Turkey

## CONTENTS

### Independent auditors' review report

Interim condensed statement of financial position .....	1
Interim condensed statement of profit or loss .....	2
Interim condensed statement of comprehensive income .....	3
Interim condensed statement of changes in equity .....	4
Interim condensed statement of cash flows .....	5

### Notes to condensed financial statements

1. Principal activities	6
2. Basis of preparation	6
3. Significant accounting policies	7
4. Cash and cash equivalents	13
5. Due from credit institutions	13
6. Investment securities available-for-sale	133
7. Loans to customers	144
8. Other assets and liabilities	155
9. Amounts due to credit institutions	156
10. Amounts due to customers	16
11. Taxation	16
12. Equity	17
13. Commitments and contingencies	18
14. Impairment losses on interest bearing assets	18
15. Net fee and commission income	19
16. Personnel, general and administrative expenses	19
17. Risk management	200
18. Fair values of financial instruments	277
19. Related party disclosures	29
20. Capital adequacy	300
21. Events after the reporting period	30

**PASHA YATIRIM BANKASI A.Ş.****UNAUDITED INTERIM CONDENSED  
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Unaudited 30 June 2016	Audited 31 December 2015
<b>ASSETS</b>			
Cash and cash equivalents	4	32,049	48,248
Amounts due from credit institutions	5	14,623	11,772
Financial assets at fair value through profit and loss		408	604
Investment securities available-for-sale	6	16,539	9,619
Loans to customers	7	323,676	243,614
Property and equipment		578	504
Intangible assets		699	468
Deferred tax assets		894	1,053
Other assets	8	7,282	4,819
<b>TOTAL ASSETS</b>		<b>396,748</b>	<b>320,701</b>
<b>LIABILITIES</b>			
Amounts due to customers	10	167	59
Other money market deposits		10,010	10,213
Amounts due to credit institutions	9	138,010	71,311
Employee benefits		921	1,324
Derivative financial liabilities		-	48
Current income tax liabilities		1,463	482
Other liabilities	8	7,892	5,746
<b>Total liabilities</b>		<b>158,463</b>	<b>89,183</b>
<b>EQUITY</b>			
Share capital	12	255,000	255,000
Retained earnings/(Accumulated deficit)		(17,031)	(23,716)
Other reserves		324	324
Unrealised (losses)/gains on investment securities available-for-sale		(8)	(90)
<b>Total equity attributable to shareholders of the Bank</b>		<b>238,285</b>	<b>231,518</b>
<b>Total equity</b>		<b>238,285</b>	<b>231,518</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>396,748</b>	<b>320,701</b>

**PASHA YATIRIM BANKASI A.Ş.**

**UNAUDITED INTERIM CONDENSED STATEMENT  
OF INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Unaudited 30 June 2016	Audited 30 June 2015
<b>Interest income</b>			
Loans to customers		15,467	5,700
Investment securities available for sale		867	921
Trading securities		-	-
Money market placements		-	-
Amounts due from credit institutions		1,000	4,490
Other interest income		-	-
Securities purchased under agreements to resell		23	540
<b>Total Interest Income</b>		<b>17,357</b>	<b>11,651</b>
<b>Interest expense</b>			
Amounts due to customers		-	-
Amounts due to credit institutions		(1,477)	(180)
Money market deposits		(398)	(62)
Amounts due to the CBA, banks and government agencies		-	-
Other		(263)	(122)
<b>Total Interest Expense</b>		<b>(2,138)</b>	<b>(364)</b>
<b>Net interest income</b>		<b>15,219</b>	<b>11,287</b>
Provision for impairment losses on interest bearing assets	14	(979)	(797)
<b>Net interest income after provision for impairment losses</b>		<b>14,240</b>	<b>10,490</b>
Net fee and commission income	15	571	30
Net gains/(losses) from trading securities		-	-
Net gains/(losses) on sale of investment securities available-for-sale		17	(464)
Net gains/(losses) from foreign currencies:		880	457
- dealing		-	-
- translation differences		(23)	759
- operations with foreign currency derivatives		903	(302)
Impairment loss on investment securities available-for-sale		-	-
Other income		114	58
<b>Total Non-interest income</b>		<b>1,582</b>	<b>81</b>
<b>OPERATING INCOME</b>		<b>15,822</b>	<b>10,571</b>
Personnel expenses	16	(3,863)	(2,686)
General and administrative expenses	16	(3,355)	(2,940)
Depreciation and amortization		(250)	(123)
Loss on impairment of AFS securities		-	-
Loss on initial recognition of financial assets at fair value		-	-
Provision for guarantees and other commitments		-	-
<b>Non-interest expenses</b>		<b>(7,468)</b>	<b>(5,749)</b>
<b>OPERATING PROFIT</b>		<b>8,354</b>	<b>4,822</b>
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>8,354</b>	<b>4,822</b>
Income tax benefit/(expense)	11	(1,669)	(882)
<b>Profit/(loss) for the year</b>		<b>6,685</b>	<b>3,940</b>

**PASHA YATIRIM BANKASI A.Ş.**

**UNAUDITED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR  
THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Unaudited 30 June 2016	Unaudited 30 June 2015
<b>Profit/(loss) for the year</b>	<b>6,685</b>	<b>3,940</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		
Net (loss) gain on available-for-sale financial assets	130	(130)
Tax effect of net (losses)/gains on investment securities available for-sale	(48)	26
Other comprehensive income/loss for the period, net of tax	82	(104)
<b>Total comprehensive income for the year</b>	<b>6,767</b>	<b>3,836</b>

**PASHA YATIRIM BANKASI A.Ş.**

**UNAUDITED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Share capital	Retained earnings/(Accu- mulated deficit)	Net unrealised gain/(losses) on investments securities available-for-sale	Other reserves	Total equity
<b>01 January 2015</b>	<b>80,000</b>	<b>(33,446)</b>	<b>(5)</b>	<b>324</b>	<b>46,873</b>
Net profit for the year	-	3,940	-	-	3,940
Other comprehensive income for the year	-	-	(104)	-	(104)
Dividends declared	-	-	-	-	-
Cash contribution for share capital increase	175,000	-	-	-	175,000
<b>30 June 2015</b>	<b>255,000</b>	<b>(29,506)</b>	<b>(109)</b>	<b>324</b>	<b>225,709</b>
<b>01 January 2016</b>	<b>255,000</b>	<b>(23,716)</b>	<b>(90)</b>	<b>324</b>	<b>231,518</b>
Dividends paid	-	-	-	-	-
Dividends repealed	-	-	-	-	-
Cash contribution for share capital increase	-	-	-	-	-
Acquisition of non- controlling interests	-	-	-	-	-
Net Profit for the Year	-	6,685	82	-	6,767
<b>30 June 2016</b>	<b>255,000</b>	<b>(17,031)</b>	<b>(8)</b>	<b>324</b>	<b>238,285</b>

**UNAUDITED INTERIM STATEMENT OF CASH FLOW  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

		Unaudited 30 June 2016	Unaudited 30 June 2015
<b>A.</b>	<b>CASH FLOWS FROM BANKING OPERATIONS</b>		
<b>I.1</b>	<b>Operating Profit Before Changes in Operating Assets and Liabilities</b>	<b>6,629</b>	<b>3,721</b>
1.1.1	Interest Received	15,295	9,106
1.1.2	Interest Paid	(1,033)	(240)
1.1.3	Dividend Received	-	-
1.1.4	Fees and Commissions Received	654	85
1.1.5	Other Income	1,253	(642)
1.1.6	Collections from Previously Written-off Loans and Other Receivables	-	-
1.1.7	Payments to Personnel and Service Suppliers	(3,215)	(2,686)
1.1.8	Other	(6,325)	(1,902)
<b>I.2</b>	<b>Changes in Operating Assets and Liabilities</b>	<b>(15,855)</b>	<b>(80,884)</b>
1.2.1	Net (Increase)/Decrease in Trading Securities	-	(156)
1.2.2	Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets	148	-
1.2.3	Net (Increase)/Decrease in Due from Credit Institutions	(2,827)	(2,829)
1.2.4	Net (Increase)/Decrease in Loans	(79,260)	(102,633)
1.2.5	Net (Increase)/Decrease in Other Assets	4,182	2,604
1.2.6	Net Increase/(Decrease) in Bank Deposits	-	-
1.2.7	Net Increase/(Decrease) in Other Deposits	-	-
1.2.8	Net Increase/(Decrease) in Due to Credit Institutions	65,597	25,098
1.2.9	Net Increase/(Decrease) in Payables	-	-
1.2.10	Net Increase/(Decrease) in Other Liabilities	(3,695)	(2,968)
<b>I.</b>	<b>Net Cash Provided from Banking Operations</b>	<b>(9,226)</b>	<b>(77,163)</b>
<b>B.</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>II.</b>	<b>Net Cash Provided from Investing Activities</b>	<b>(6,731)</b>	<b>(4,661)</b>
2.1	Cash Paid for Acquisition of Investments, Associates and Subsidiaries	-	-
2.2	Cash Obtained from Disposal of Investments, Associates and Subsidiaries	-	-
2.3	Purchases of Property and Equipment	(554)	(255)
2.4	Disposals of Property and Equipment	-	-
2.5	Cash Paid for Purchase of Investments Available-for-Sale	(8,373)	(5,599)
2.6	Cash Obtained from Sale of Investments Available-for-Sale	2,196	1,193
2.7	Cash Paid for Purchase of Investment Securities	-	-
2.8	Cash Obtained from Sale of Investment Securities	-	-
2.9	Other	-	-
<b>C.</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>III.</b>	<b>Net Cash Provided from Financing Activities</b>	<b>-</b>	<b>174,932</b>
3.1	Cash Obtained from Funds Borrowed and Securities Issued	-	-
3.2	Cash Used for Repayment of Funds Borrowed and Securities Issued	-	-
3.3	Issued Capital Instruments	-	175,012
3.4	Dividends Paid	-	-
3.5	Payments for Finance Leases	-	(80)
3.6	Other	-	-
<b>IV.</b>	<b>Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>	<b>(242)</b>	<b>746</b>
<b>V.</b>	<b>Net Increase/(Decrease) in Cash and Cash Equivalents (I+II+III+IV)</b>	<b>(16,199)</b>	<b>93,854</b>
<b>VI.</b>	<b>Cash and Cash Equivalents at the Beginning of the Period</b>	<b>48,248</b>	<b>1,231</b>
<b>VII.</b>	<b>Cash and Cash Equivalents at the End of the Period (V+VI)</b>	<b>32,049</b>	<b>95,085</b>



**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**1. Principal activities**

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey. With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the acquisition were approved by the BRSA's decision dated 26 December 2014 and numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as at 25 February 2015. Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "Pasha Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "Pasha Yatırım Bankası A.Ş." was registered on 2 March 2015 and announced at the Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773. Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing Pasha Bank OJSC shares from %79,9196 to %99,9196 has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

Partnership structure of the Bank as of 30 June 2016, is stated below:

	Capital	Share Rate
PASHA Bank OJSC	254,795	%99.9196
Other	205	%0.0804
Total	255,000	

**2. Basis of preparation**

**a) Statement of compliance**

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

The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions.

The statutory financial statements are prepared within the scope of the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). The format and content of the publicly announced financial statements and notes to these statements have been prepared in accordance with the "Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements", published in Official Gazette no. 28337, dated 28 June 2012, and amendments to this Communiqué. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**2. Basis of preparation (continued)**

**b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Financial instruments classified as available for sale are measured at fair value through other comprehensive income

**c) Functional and presentation currency**

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

**d) Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in *Note 5*.

**3. Significant Accounting Policies**

**a) The new standards, amendments and interpretations**

The accounting policies adopted in preparation of the interim condensed financial statements as at June 30, 2016 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2016. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

**i) The new standards, amendments and interpretations which are effective as at January 1, 2016 are as follows:**

***IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)***

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Bank.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**3. Significant Accounting Policies (continued)**

***IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)***

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Bank.

***IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants***

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

***IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)***

Public Oversight Accounting and Auditing Standards Authority (POA) of Turkey issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9, or
- Using the equity method defined in IAS 28

The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

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

Amendments issued to IFRS 10, IFRS 12 and IAS 28, to address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

***IAS 1: Disclosure Initiative (Amendments to IAS 1)***

The amendments issued to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the interim condensed financial statements of the Bank.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**3. Significant Accounting Policies (continued)**

***Annual Improvements to IFRSs - 2012-2014 Cycle***

IASB issued, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan

IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report

IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located

IAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

The amendment did not have any impact on the financial position or performance of the Bank.

**ii) Standards issued but not yet effective and not early adopted**

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

***IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)***

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**3. Significant Accounting Policies (continued)**

***IFRS 15 Revenue from Contracts with Customers***

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. IFRS 15 scopes out (a) lease contracts within the scope of IAS 17 Leases; (b) insurance contracts within the scope of IFRS 4 Insurance Contracts; (c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; consequently the Bank estimates that the impact of the standard on financial position or performance of the Bank will not be significant.

***Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)***

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank estimates that the impact of the amendment on financial position or performance of the Bank will not be significant.

***IFRS 9 Financial Instruments - Final standard (2014)***

The IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**3. Significant Accounting Policies (continued)**

***IFRS 16 Leases***

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

***IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)***

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Company/Group applies this relief, it shall disclose that fact. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

***IAS 7 Statement of Cash Flows (Amendments)***

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Bank first applies those amendments, it is not required to provide comparative information for preceding periods. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

***IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)***

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

- a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**3. Significant Accounting Policies (continued)**

**b) Fair value measurement**

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

**c) Financial assets**

*Recognition*

The Bank initially recognizes loans and advances, deposits and debt securities issued on the date that they are originated. All other financial assets and liabilities are initially recognised on the settlement date at which the Bank becomes a party to the contractual provisions of the instrument.

*Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of trading assets are recognised in the statement of profit or loss as net gain/ (loss) on trading securities.

Gains and losses arising from a change in the fair value of available-for-sale securities are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the statement of comprehensive income. Interest earned while holding available-for-sale securities or held to maturity assets is reported as interest income.

**d) Comparatives**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period. Balance of other liabilities and provisions in December 31, 2015 have been reclassified to amounts due to customers TL 59, other money market deposits TL 10,213 and other liabilities TL 5,746 as of June 30, 2016.

**e) Going concern**

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**4. Cash and cash equivalents**

Cash and cash equivalents comprise:

	30 June 2016	31 December 2015
Cash on hand	25	11
Current accounts with the Central Bank	413	880
Placements with other credit institutions	11,303	-
Demand Deposits	2,936	21,342
Time deposits	17,372	26,015
<b>Total cash and cash equivalents</b>	<b>32,049</b>	<b>48,248</b>

For the purposes of the preparation of statement of cash flows, "Cash" includes cash, effectives, and cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and "Cash equivalents" include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

**5. Due from credit institutions**

Amounts due from credit institutions comprise:

	30 June 2016	31 December 2015
Obligatory reserve with the CBT	14,623	11,772
<b>Amounts due from credit institutions</b>	<b>14,623</b>	<b>11,772</b>

**6. Investment securities available-for-sale**

Investment securities available-for-sale comprise:

	30 June 2016		31 December 15	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance of Turkey	11,817	11,500	9,619	9,500
Financial Institution Bonds	4,722	4,800	-	-
<b>Investment securities available-for-sale</b>	<b>16,539</b>	<b>16,300</b>	<b>9,619</b>	<b>9,500</b>

Nominal interest rates per annum and maturities of these securities are as follows:

	30 June 2016		31 December 15	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance of Turkey	6.93%- 8.42%	July 2016- March 2017	6.93%- 8.29%	June 2016- November 2016
Financial Institution Bonds	11.80%- 13.05%	August 2016	-	-



**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**7. Loans to customers**

Loans to customers comprise:

	<i>30 June 2016</i>	<i>31 December 15</i>
- Loans to financial institutions	156,101	118,202
- Corporate loans	170,684	127,542
<b>Loans to customers (gross)</b>	<b>326,785</b>	<b>245,744</b>
Impairment provision for loans (-)	(3,109)	(2,130)
- Collective impairment (-)	(3,109)	(2,130)
<b>Loans and advances to customers, net</b>	<b>323,676</b>	<b>243,614</b>

Loans are made in the following industry sectors:

<b>Analysis by sector:</b>	<i>30 June 2016</i>	<i>31 December 15</i>
Trade and services	16,314	-
Manufacturing	31,453	39,173
Construction	39,214	18,595
Non banking credit organizations	156,101	118,202
Real estate and & Rental services	32,330	23,705
Transport and telecommunication	-	-
Energy	51,373	-
Other	-	46,069
<b>Total loans to customers, gross</b>	<b>326,785</b>	<b>245,744</b>

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**8. Other assets and liabilities**

Other assets comprise:

	30 June 2016	31 December 2015
<b>Other financial assets</b>		
Settlements on money transfers	-	-
Clearance cheque accounts	6,564	4,224
Accrued receivables on guarantees and letters of credit	-	-
Other	-	-
	<u>6,564</u>	<u>4,224</u>
<b>Other non-financial assets</b>		
Prepayments and receivables	565	453
Deferred expenses	-	-
Repossessed collateral	61	49
Other non-financial assets	92	93
	<u>718</u>	<u>595</u>
<b>Total other assets</b>	<u><u>7,282</u></u>	<u><u>4,819</u></u>

Other liabilities comprise:

	30 June 2016	31 December 2015
<b>Other financial liabilities</b>		
Payables on letters of credit and guarantees issued	20	-
Clearance cheque accounts	6,564	4,224
	<u>6,584</u>	<u>4,224</u>
<b>Other non-financial liabilities</b>		
Miscellaneous payables	39	100
Provisions for Lawsuit	262	308
Provision for expenses	265	401
Accrued fee&commissions	653	659
Other non-financial liabilities	89	54
	<u>1,308</u>	<u>1,522</u>
<b>Total other liabilities</b>	<u><u>7,892</u></u>	<u><u>5,746</u></u>

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**9. Amounts due to credit institutions**

Information on banks:

	30 June 2016		31 December 2015	
	TL	FC	TL	FC
Borrowings from the CBRT	-	-	-	-
From Domestic Banks and Institutions	24,007	21,685	-	1,751
From Foreign Banks, Institutions and Funds	-	92,318	-	69,560
Due from Parent Bank	-	-	-	-
<b>Total</b>	<b>24,007</b>	<b>114,003</b>	<b>-</b>	<b>71,311</b>

Information on maturity structure of borrowings:

	30 June 2016		31 December 2015	
	TL	FC	TL	FC
Short-term	24,007	44,034	-	30,211
Medium and Long-term	-	69,969	-	41,100
Demand Deposit from Parent Bank	-	-	-	-
<b>Total</b>	<b>24,007</b>	<b>114,003</b>	<b>-</b>	<b>71,311</b>

**10. Amounts due to customers**

The amounts due to customers include the following:

	<i>30 June 2016</i>	<i>31 December 2015</i>
Amounts due to customers	167	59
<b>Amounts due to customers</b>	<b>167</b>	<b>59</b>

An analysis of customer accounts by economic sector follows:

	<i>30 June 2016</i>	<i>31 December 2015</i>
Trade and services	16	-
Insurance	-	-
Transport and communication	-	-
Hotel business	-	-
Public organizations	-	-
Construction	-	4
Non banking credit organizations	100	20
Manufacturing	26	9
Real estate and & Rental services	21	11
Agriculture	-	-
Energy	-	-
Other	4	15
<b>Amounts due to customers</b>	<b>167</b>	<b>59</b>

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**11. Taxation**

The tax expense comprises:

	<i>30 June 2016</i>	<i>30 June 2015</i>
Current tax charge	(1,558)	-
Prior year tax expense actualisation	-	-
Deferred tax credit/(charge)	(111)	(882)
<b>Income tax expense</b>	<b>(1,669)</b>	<b>(882)</b>

Deferred tax related to items credited to other comprehensive income during the year is as follows:

	<i>30 June 2016</i>	<i>31 December 2015</i>
Net gains/(losses) on investment securities available-for-sale	(48)	22
<b>Income tax credited/(charged) to other comprehensive income</b>	<b>(48)</b>	<b>22</b>

**12. Equity**

*Share capital:*

As of 30 June 2016, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 255,000 (2015: TL 255,000), comprising 255 million (Full TL) registered shares of one TL 0.01 each.

As of 30 June 2016 the Bank's historical subscribed and issued share capital was TL 255,000 (31 December 2015: TL 255,000).

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

	<i>30 June 2016</i>		<i>31 December 2015</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
PASHA Bank OJSC	254,795	99.9	254,795	99.9
Others	205	0.01	205	0.01
<b>Total</b>	<b>255,000</b>		<b>255,000</b>	
Adjustment to share capital	-		-	
<b>Total</b>	<b>255,000</b>		<b>255,000</b>	

*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. The statutory legal reserve is 324 as of 31 December 2015 and 2014.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**13. Commitments and contingencies**

Irrevocable Commitments	30 June 2016	31 December 2015
Forward Asset purchase and sale commitments	-	16,912
Forward Deposit purchase and sale commitments	-	2,009
Tax and fond liabilities from export commitment	2	25
Other Irrevocable commitments	-	-
<b>Total</b>	<b>2</b>	<b>18,946</b>

*Information on the non-cash loans classified in Performing and Watchlist:*

30 June 2016	Performing		Watchlist	
	TL	FC	TL	FC
<b>Non-Cash Loans</b>	<b>89,105</b>	<b>57,119</b>	-	-
Letters of Guarantee	89,105	43,394	-	-
Bank Acceptances	-	-	-	-
Letters of Credit	-	13,725	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	-	-	-	-

	30 June 2016	31 December 2015
Non-cash Loans Given against Cash Loans	59,424	-
With Original Maturity of 1 Year or Less Than 1 Year	7,500	-
With Original Maturity of More Than 1 Year	51,924	22,091
Other Non-cash Loans	86,800	104,904
<b>Total</b>	<b>146,224</b>	<b>126,995</b>

**14. Impairment losses on interest bearing assets**

The movements in allowance for impairment losses on interest bearing assets were as follows:

	30 June 2016	
	Corporate lending	Total loans to customers
At 1 January	2,130	2,130
Charge for the year	979	979
Amounts written off	-	-
At 30 June	3,109	3,109

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**15. Net fee and commission income**

Net fee and commission income comprise:

	<i>30 June 2016</i>	<i>30 June 2015</i>
Guarantees and letters of credit	554	48
Money transfer operations	54	24
Settlements operations	-	-
Fee from cash loans	51	-
Securities operations	-	-
Other	-	2
<b>Fee and commission income</b>	<b>659</b>	<b>74</b>
Fee to correspondent banks	(58)	(22)
Money transfer operations-expenses	(27)	(17)
Settlements operations	-	-
Securities operations	-	-
Cash operations	-	-
Other fee expenses	(3)	(5)
<b>Fee and commission expense</b>	<b>(88)</b>	<b>(44)</b>
<b>Net fee and commission income</b>	<b>571</b>	<b>30</b>

**16. Personnel, general and administrative expenses**

Personnel expenses comprise:

	<i>30 June 2016</i>	<i>30 June 2015</i>
Salaries and bonuses	3,187	2,170
Social security costs	305	233
Other employee related expenses	371	283
<b>Total personnel expenses</b>	<b>3,863</b>	<b>2,686</b>

General and administrative expenses comprise:

	<i>30 June 2016</i>	<i>30 June 2015</i>
Operating leases	722	534
Professional services	291	236
Transportation and business trip expenses	137	49
Advertising costs	376	1
Insurance expenses	1	26
Utilities	39	47
IT and software expenses	591	421
Repair and maintenance	6	-
Communications	197	132
Security expenses	112	92
Stationary	19	56
Subscription fees	103	46
Representation	94	34
Taxes, other than income tax	236	366
Other expenses	431	900
<b>Total general and administrative expenses</b>	<b>3,355</b>	<b>2,940</b>

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management**

***EXPLANATIONS ON CURRENCY RISK***

The Bank's foreign currency position is managed within the limits set by legislation and the Bank. The basic principle in foreign currency risk management is not to be exposed to currency risk. The Bank uses derivative financial instruments such as forward foreign exchange contracts and currency swaps for hedging purposes in foreign currency denominated transactions.

Bank's methodology for measuring foreign currency position includes the use of standard method when calculating the capital adequacy ratio and application of internal stress tests/ sensitivity analysis.

The Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five business days prior to that date are as follows:

	USD	EURO
<b>Bid Rate</b>	<b>2.8848</b>	<b>3.2078</b>
1. Bid rate	2.8936	3.2044
2. Bid rate	2.9130	3.2262
3. Bid rate	2.9365	3.2402
4. Bid rate	2.9266	3.2444
5. Bid rate	2.8799	3.2728

The simple arithmetic average of the Bank's foreign exchange bid rates for the last thirty days preceding the balance sheet date is as follows:

	USD		EURO	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Arithmetic average - 30 days	2.9178	2.9177	3.2750	3.1770

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management (continued)**

**Information on currency risk of the Bank:**

The following table shows the foreign currency net general position of the bank on the basis of foreign currencies.

	EUR	USD	Other FC	Total
<b>30 June 2016</b>				
<b>Assets</b>				
Cash and cash equivalents	1	14,725	-	14,726
Amounts due from credit institutions	1,881	9,413	-	11,294
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Interbank Money Market Placements	-	-	-	-
Available-for-sale Financial Assets	-	-	-	-
Loans to customers(*)	40,968	62,394	-	103,362
Investments in Associates, Subsidiaries and Joint Ventures	-	-	-	-
Held-to-maturity Investments	-	-	-	-
Hedging Derivative Financial Assets	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets	-	37	-	37
<b>Total Assets</b>	<b>42,850</b>	<b>86,569</b>	<b>-</b>	<b>129,419</b>
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Amounts due to customers	-	-	-	-
Other Money Market Deposits	-	-	-	-
Amounts Due To Credit Institutions	35,506	78,497	-	114,003
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	-	-	-	-
Hedging Derivative Financial Liabilities	-	-	-	-
Other Liabilities	91	14	-	105
<b>Total Liabilities</b>	<b>35,597</b>	<b>78,511</b>	<b>-</b>	<b>114,108</b>
<b>Net On-balance Sheet Position</b>	<b>7,253</b>	<b>8,058</b>	<b>-</b>	<b>15,311</b>
<b>Net Off-balance Sheet Position</b>	<b>(6,416)</b>	<b>-</b>	<b>-</b>	<b>(6,416)</b>
Financial Derivative Assets(**)	-	-	-	-
Financial Derivative Liabilities(**)	6,416	-	-	6,416
<b>Non-Cash Loans</b>	<b>24,258</b>	<b>30,349</b>	<b>2,512</b>	<b>57,119</b>
<b>31 December 2015</b>				
<b>Total Assets</b>	<b>15,055</b>	<b>89,355</b>	<b>10,234</b>	<b>114,644</b>
<b>Total Liabilities</b>	<b>6,409</b>	<b>75,171</b>	<b>-</b>	<b>81,580</b>
<b>Net On-balance Sheet Position</b>	<b>8,646</b>	<b>14,184</b>	<b>10,234</b>	<b>33,064</b>
<b>Net Off-balance Sheet Position</b>	<b>(8,438)</b>	<b>(18,384)</b>	<b>-</b>	<b>(26,822)</b>
Financial Derivative Assets	8,437	-	-	8,437
Financial Derivative Liabilities	16,875	18,384	-	35,259
<b>Non-Cash Loans (**)</b>	<b>24,101</b>	<b>41,563</b>	<b>1,666</b>	<b>67,330</b>

(\*) Foreign exchange linked loans amounting to TL 28,130 (31 December 2015 : TL 23,846) are also included.

(\*\*) Forward and swap transactions included.



**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management (continued)**

**EXPLANATIONS ON INTEREST RATE RISK**

Interest rate risk is the risk that expresses the effects of fluctuations in the market interest rates on the value increase/decrease of the Bank's interest rate sensitive assets and liabilities.

The interest rate sensitivity of Assets, Liabilities and Off-balance sheet items is carefully followed up by the treasury department of the Bank. Assets and liabilities which are sensitive to interest are managed in such a way that minimizes the interest risk.

The interest rate risk of the banking items is measured and reported monthly in accordance with the BRSA's "Regulation on Measurement and Assessment of Standard Shock Method on the interest rate risk arising from banking accounts".

**Interest rate sensitivity of the Bank:**

**a. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates**

The tables below summarize the Bank's exposure to interest rate risks at 30 June 2016 and 31 December 2015. Included in the tables are the Bank's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

<b>30 June 2016</b>	<b>Up to 1 Month</b>	<b>1-3 Months</b>	<b>3-12 Months</b>	<b>1-5 Year</b>	<b>5 Year and over</b>	<b>Non- Interest Bearing</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	-	31,613	-	-	-	436	32,049
Amounts due from credit institutions	14,623	-	-	-	-	-	14,623
Financial assets at fair value through profit and loss	-	408	-	-	-	-	408
Investment securities available-for-sale	6,353	4,721	5,465	-	-	-	16,539
Loans to Customers	144,263	93,341	82,810	3,262	-	-	323,676
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (*)	-	-	-	-	-	9,453	9,453
<b>Total Assets</b>	<b>165,239</b>	<b>130,083</b>	<b>88,275</b>	<b>3,262</b>	<b>-</b>	<b>9,889</b>	<b>396,748</b>
<b>Liabilities</b>							
Amounts due to customers	167	-	-	-	-	-	167
Other money market deposits	10,010	-	-	-	-	-	10,010
Amounts due to credit institutions	48,721	3,220	44,689	41,380	-	-	138,010
Other Liabilities (**)	-	-	-	-	-	248,561	248,561
<b>Total Liabilities</b>	<b>58,898</b>	<b>3,220</b>	<b>44,689</b>	<b>41,380</b>	<b>-</b>	<b>248,561</b>	<b>396,748</b>
<b>Balance Sheet Long Position</b>	<b>141,706</b>	<b>94,842</b>	<b>37,473</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>274,021</b>
<b>Balance Sheet Short Position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(38,118)</b>	<b>-</b>	<b>(235,903)</b>	<b>(274,021)</b>
<b>Off-balance Sheet Long Position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Off-balance Sheet Short Position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Position</b>	<b>141,706</b>	<b>94,842</b>	<b>37,473</b>	<b>(38,118)</b>	<b>-</b>	<b>(235,903)</b>	<b>-</b>

(\*) Other assets includes miscellaneous receivables, tangible Assets, intangible Assets and non-interests bearing assets in other assets and tax assets

(\*\*) Shareholders' equity, non-interest bearing liabilities in other liabilities, miscellaneous payments and tax liability is presented under "Other Liabilities" in the "Non-Interest Bearing" column

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management (continued)**

31 December 2015	Up to 1 Month	1-3 Months	3-12 Months	1-5 Year	5 Year and over	Non- Interest Bearing	Total
<b>Assets</b>							
Cash and cash equivalents	47,362	-	-	-	-	886	48,248
Amounts due from credit institutions	11,772	-	-	-	-	-	11,772
Financial assets at fair value through profit and loss	-	604	-	-	-	-	604
Investment securities available-for-sale	256	-	9,363	-	-	-	9,619
Loans to Customers	105,683	83,836	51,931	2,164	-	-	243,614
Other Assets (*)	-	-	-	-	-	6,844	6,844
<b>Total Assets</b>	<b>165,073</b>	<b>84,440</b>	<b>61,294</b>	<b>2,164</b>	<b>-</b>	<b>7,730</b>	<b>320,701</b>
<b>Liabilities</b>							
Amounts due to customers	59	-	-	-	-	-	59
Other money market deposits	10,213	-	-	-	-	-	10,213
Amounts due to credit institutions	9,125	-	21,086	41,100	-	-	71,311
Other Liabilities (**)	-	-	-	-	-	239,118	239,118
<b>Total Liabilities</b>	<b>19,397</b>	<b>-</b>	<b>21,086</b>	<b>41,100</b>	<b>-</b>	<b>239,118</b>	<b>320,701</b>
Balance Sheet Long Position	145,676	84,440	40,208	-	-	-	270,324
Balance Sheet Short Position	-	-	-	38,936	-	231,388	270,324
Off-balance Sheet Long Position	-	-	-	-	-	-	-
Off-balance Sheet Short Position	-	-	-	-	-	-	-
<b>Total Position</b>	<b>145,676</b>	<b>84,440</b>	<b>40,208</b>	<b>(38,936)</b>	<b>-</b>	<b>(231,388)</b>	<b>-</b>

(\*) Other assets includes miscellaneous receivables, tangible Assets, intangible Assets and non-interest bearing assets in other assets and tax assets

(\*\*) Shareholders' equity, non-interest bearing liabilities in other liabilities and tax liability is presented under "Other Liabilities" in the "Non-Interest Bearing" column

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management (continued)**

**Average interest rates for monetary financial instruments:**

The average interest rates in the following tables are calculated by weighting the simple interest to principle amounts.

30 June 2016	EUR %	USD %	JPY %	TL %
<b>Assets</b>				
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the CBRT	-	0.49	-	4.73
Due From Banks	-	0.40	-	10.27
Financial Assets at Fair Value Through Profit/Loss	-	-	-	-
Interbank Money Market Placements	-	-	-	11.89
Available-for-Sale Financial Assets	-	-	-	9.29
Loans	3.39	4.83	-	13.19
Held-to-Maturity Investments	-	-	-	-
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds From Interbank Money Market	-	-	-	9.35
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds Borrowed From Other Financial Inst.	1.77	2.78	-	10.30

31 December 2015	EUR %	USD %	JPY %	TL %
<b>Assets</b>				
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the CBRT	-	-	-	-
Due From Banks	-	0.99	-	10.60
Financial Assets at Fair Value Through Profit/Loss	-	-	-	-
Interbank Money Market Placements	-	-	-	10.95
Available-for-Sale Financial Assets	-	-	-	8.80
Loans	4.80	4.82	-	12.28
Held-to-Maturity Investments	-	-	-	-
<b>Liabilities</b>				
Bank Deposits	-	-	-	-
Other Deposits	-	-	-	-
Funds From Interbank Money Market	-	-	-	9.79
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	-	-	-
Funds Borrowed From Other Financial Inst.	2.0	3.25	-	10.75

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management (continued)**

***EXPLANATIONS ON LIQUIDITY RISK***

Treasury department manages the liquidity of the Bank daily and informs assets and liabilities committee weekly about the liquidity level of the Bank. Treasury department is responsible for planning liquidity management, taking measures and informing the senior management of aforementioned issues.

The Bank forms its assets and liabilities in balance in order not to create a negative gap on cumulative basis in maturity segments.

Financial planning and control department is legally responsible for measuring and reporting of liquidity risk. Stress test applied to liquidity position and calculation of liquidity coverage rate is performed by Liquidity Management Department.

Risk Management Department monitors related unit's activities and reports to the Senior Management monthly.

The main funding sources of the Bank are provided by domestic and foreign banks and repo transactions and Money market transactions and diversification of aforementioned sources are made in order to minimize liquidity risk. Financial Institutions Department carries out studies in relation to sourcing long term external funding management.

Liquidity limits are determined in order to keep the risk regarding liquidity risk in defined limits and to monitor liquidity position. The aforementioned limits have been determined in accordance with "Regulation on Measurement and Evaluation of Bank's Liquidity Adequacy" in Risk Limits document and approved by Board of Directors.

At least one of the following liquidity stress tests related to issues mentioned below is applied monthly and result of the related test is reported to Board of Directors by Risk Management Unit.

- Negative influence of economic crisis occurring in domestic finance markets on the liquidity of the Bank.
- Negative influence of global crisis on the liquidity of the Bank.
- Negative influence of a problem occurred within the Bank (abuse, fraud, reputation risk etc.).

Threshold of weekly and monthly liquidity rate for stress tests which shall be applied for above mentioned scenarios is taken into consideration as 80% for foreign currency assets/liabilities and as 100% for total assets/liabilities.

"Emergency and unexpected situation plan for Liquidity" is approved by the Board of Directors and established in order to manage possible liquidity crisis and required actions for losses which can occur in extraordinary conditions are determined with preventing mechanisms and liquidity squeeze scenarios. The scope of the aforementioned plan is to pre-determine applicable scenarios, measurement of liquidity risk and the actions which shall be taken towards those risks.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management (continued)**

**g) Liquidity ratios realized in the current period**

	First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC + TL	FC	FC + TL
<b>30 June 2016</b>				
Average (%)	246	513	165	531
Maximum (%)	496	1,746	266	1,329
Minimum (%)	131	306	99	269

	First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC + TL	FC	FC + TL
<b>31 December 2015</b>				
Average (%)	4.008	3.178	2.157	2.748
Maximum (%)	22.221	24.685	54.473	41.234
Minimum (%)	120	390	82	382

**h) Breakdown of assets and liabilities according to their outstanding maturities:**

The table below analyses carrying amount of assets and liabilities of the Bank into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

	Demand	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Unclassified (*)	Total
<b>30 June 2016</b>								
<b>Assets</b>								
Cash and cash equivalents	436	31,613	-	-	-	-	-	32,049
Amounts due from credit institutions	-	14,623	-	-	-	-	-	14,623
Financial assets at fair value through profit and loss	-	-	408	-	-	-	-	408
Investment securities available-for-sale	-	6,353	4,721	5,465	-	-	-	16,539
Loans to Customers	-	93,174	60,608	123,499	3,261	43,134	-	323,676
Held-to-Maturity Investments	-	-	-	-	-	-	-	-
Other Assets (*)	-	6,564	-	-	-	-	2,889	9,453
<b>Total Assets</b>	<b>436</b>	<b>153,237</b>	<b>65,737</b>	<b>128,964</b>	<b>3,261</b>	<b>43,134</b>	<b>2,889</b>	<b>396,748</b>
<b>Liabilities</b>								
Bank Deposits	-	-	-	-	-	-	-	-
Amounts due to customers	167	-	-	-	-	-	-	167
Amounts due to credit institutions	-	42,200	3,220	51,210	41,380	-	-	138,010
Due to other Banks	-	10,010	-	-	-	-	-	10,010
Marketable Securities Issued	-	-	-	-	-	-	-	-
Funds Borrowed From Other Financial Institutions	-	-	-	-	-	-	-	-
Other Liabilities (**)	-	8,346	-	-	-	-	240,215	248,561
<b>Total Liabilities</b>	<b>167</b>	<b>60,556</b>	<b>3,220</b>	<b>51,210</b>	<b>41,380</b>	<b>-</b>	<b>240,215</b>	<b>396,748</b>
<b>Net Liquidity Gap</b>	<b>3,205</b>	<b>88,796</b>	<b>62,517</b>	<b>77,754</b>	<b>(38,119)</b>	<b>43,134</b>		<b>-</b>
<b>31 December 2015</b>								
Total Assets	22,233	100,451	56,041	82,575	13,192	43,670	2,539	320,701
Total Liabilities	10,272	14,434	-	21,086	41,100	-	233,809	320,701
<b>Net Liquidity Gap</b>	<b>11,961</b>	<b>86,017</b>	<b>56,041</b>	<b>61,489</b>	<b>(27,908)</b>	<b>43,670</b>	<b>(231,270)</b>	<b>-</b>

(\*) Assets that are necessary for banking activities and that cannot be liquidated in the short-term, such as fixed assets, associates and subsidiaries, stationary stocks, prepaid expenses and loans under follow-up, are classified in this column.

(\*\*) Shareholders' equity, provisions and commissions collected in advance is presented under "Other liabilities" item in the "Unclassified" column.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**17. Risk management (continued)**

**i) Undiscounted cash flows of the liabilities of the Bank are as follows:**

	Up to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	30 June 2016 Total
<b>FINANCIAL LIABILITIES</b>						
Amounts due to credit institutions	55,798	42,701	41,018			139,517
Other money market deposits	10,080			-		10,080
						-
<b>Total undiscounted financial liabilities</b>	<b>65,878</b>	<b>42,701</b>	<b>41,018</b>	<b>-</b>	<b>-</b>	<b>149,597</b>
	Up to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2015 Total
<b>FINANCIAL LIABILITIES</b>						
Amounts due to credit institutions	9,107	21,401	43,840			74,348
Other money market deposits	-			-		-
						-
<b>Total undiscounted financial liabilities</b>	<b>9,107</b>	<b>21,401</b>	<b>43,840</b>	<b>-</b>	<b>-</b>	<b>74,348</b>

**18. Fair values of financial instruments**

**Financial asset and liability classification**

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in *Note 3*.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in *Note 3*.
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by *Note 3*.

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**18. Fair values of financial instruments (continued)**

The table below shows the carrying and fair values of financial assets and liabilities of the Bank:

	<b>30 June 2016</b>		<b>31 December 2015</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
<b>Assets</b>				
Loans and advances to customers	323,676	333,815	243,614	254,062
Investment securities	16,539	16,647	9,619	9,625
<b>Total financial assets</b>	<b>340,215</b>	<b>350,462</b>	<b>253,233</b>	<b>263,687</b>
<b>Liabilities</b>				
Amounts due to credit institutions	138,010	139,844	81,524	83,660
Other money market deposits	10,010	10,008	-	-
<b>Total financial liabilities</b>	<b>148,020</b>	<b>149,852</b>	<b>81,524</b>	<b>83,660</b>

**Fair value hierarchy**

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or,
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

<b>30 June 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available for sale financial assets	16,539	-	-	16,539
Financial assets at fair value through profit and loss	-	408	-	408
<b>Total</b>	<b>16,539</b>	<b>408</b>	<b>-</b>	<b>16,947</b>
<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Available for sale financial assets	9,619	-	-	9,619
Financial assets at fair value through profit and loss	-	604	-	604
<b>Total</b>	<b>9,619</b>	<b>604</b>	<b>-</b>	<b>10,223</b>

**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**19. Related party disclosures**

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

**Cash loans**

	30 June 2016	31 December 2015
Aksoy Holding A.Ş.(shareholder)	-	8,082
	-	8,082

**Non-Cash loans**

	30 June 2016	31 December 2015
PASHA Bank OJSC(Parent)	22,644	22,475
	22,644	22,475

**Amounts due from banks**

	30 June 2016	31 December 2015
PASHA Bank OJSC(Parent)	-	10,234
JSC PASHA Bank Georgia(Other)	1,154	-
	1,154	10,234

**Amounts due to banks**

	30 June 2016	31 December 2015
PASHA Bank OJSC (Parent)	79,703	10,213
JSC PASHA Bank Georgia (Other)	-	-
	79,703	10,213

**Interest income and commission income**

	1 January - 30 June 2016	1 January - 31 December 2015
Aksoy Holding A.Ş.	-	114
PASHA Bank OJSC(Parent)	114	98
JSC PASHA Bank Georgia(Other)	11	18
	125	230

**Compensation of key management personnel of the Bank**

The executive and non-executive members of Board of Directors and key management received remuneration and fees amounting to TL 1,395 comprising salaries and other benefits for the period 1 January-30 June 2016 (1 January -30 June 2015: TL 606).



**NOTES TO THE UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2016**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

**20. Capital management**

Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Bank's capital adequacy ratio is %66.49 as of June 30, 2016 (December 31, 2015: %91.75).The Bank has complied with the capital requirements throughout the year and previous year.

**21. Events after the reporting period**

None.