



# **Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi**

**Consolidated Financial Statements  
As at and for the Year Ended  
31 December 2016  
With Independent Auditors' Report**

23 February 2017

*This report contains 4 pages of independent auditors' report and 67 pages of consolidated financial statements and notes to the consolidated financial statements.*

## **Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi**

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Akis Bağımsız Denetim ve  
Serbest Muhasebeci Mali Müşavirlik A.Ş.  
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.  
No:29 Beykoz 34805 İstanbul  
Tel +90 (216) 681 90 00  
Fax +90 (216) 681 90 90  
www.kpmg.com.tr

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Bankpozitif Kredi ve Kalkınma Bankası A.Ş.

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("the Bank") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### ***Impairment of the carrying value of loans and advances to banks and to customers held at amortised cost***

Refer to Note 14 Loans and finance lease receivables.

#### *The key audit matter*

The appropriateness of loan loss provisions is a key area of judgment for management. The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices. The use of different modelling techniques and assumptions could produce significantly different estimates of loan loss provisions.

#### *How the matter was addressed in our audit*

We assessed and tested the design and operating effectiveness of the controls over impairment calculations including the quality of underlying data and systems. For loan loss provisions calculated on an individual basis we tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. This included taking into consideration the impact of forbearance. For loan loss provisions calculated on a collective basis we tested, the appropriateness and accuracy of the inputs to those models, compared data and assumptions made to external benchmarks. Finally, we assessed and tested the design and operating effectiveness of the controls over related disclosures including the disclosures for forbearance and cover values.

#### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



*Emphasis of Matter*

We draw attention to Note 26 to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Bank by non-performing corporate customer the Bank. Our opinion is not qualified in respect of this matter.

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

Alper Güvenç  
Partner

23 February 2017  
Istanbul, Turkey

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**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Consolidated Statement of Financial Position****As at 31 December 2016***(Currency - In thousands of Turkish Lira)*

		<b>Audited</b>	<b>Audited</b>
	<i>Note</i>	<b>31 December</b>	<b>31 December</b>
		<b>2016</b>	<b>2015</b>
<b>ASSETS</b>			
Cash and balances with central banks	10	87	130
Due from banks and financial institutions	10	44,965	17,386
Interbank and other money market placements	10	25,065	114,391
Reserve deposits at central banks	11	152,643	157,901
Trading assets	12	12,276	10,048
Investment securities	13	47,290	55,108
Loaned securities	13	18,444	14,550
Loans and finance lease receivables	14	1,275,841	1,271,093
Property and equipment	15	2,665	2,415
Intangible assets	16	7,495	9,186
Deferred tax assets	9	5,760	16,633
Investment property	17	58,250	57,292
Other assets	18	36,398	63,361
<b>Total assets</b>		<b>1,687,179</b>	<b>1,789,494</b>
<b>LIABILITIES</b>			
Other money market deposits	19	17,892	14,508
Trading liabilities	12	1,795	31,620
Funds borrowed	20	675,358	681,253
Debt securities issued	21	580,487	647,366
Other liabilities	22	46,261	60,155
Provisions	23	7,141	9,242
Current tax liabilities	9	-	61
Deferred tax liabilities	9	-	61
<b>Total liabilities</b>		<b>1,328,934</b>	<b>1,444,266</b>
<b>EQUITY</b>			
Share capital and share premium	24	379,114	379,114
Legal reserves		16,168	16,168
Available-for-sale reserve, net of tax	24	1,096	2,874
Retained earnings		(38,133)	(52,928)
<b>Total equity</b>		<b>358,245</b>	<b>345,228</b>
<b>Total equity and liabilities</b>		<b>1,687,179</b>	<b>1,789,494</b>

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



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Consolidated Statement of Profit or Loss****For the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)*

		<b>Audited</b>	<b>Audited</b>
	<i>Note</i>	<b>2016</b>	<b>2015</b>
<b>Continuing operations</b>			
<b>Interest income</b>			
Interest income on loans and finance leases		113,068	121,802
Interest income on deposits with other banks and financial institutions		1,580	3,302
Interest income on investment securities		5,095	6,968
Interest income on interbank and other money market placements		3,329	1,975
Other interest income		3,557	19,043
<b>Total interest income</b>		<b>126,629</b>	<b>153,090</b>
<b>Interest expense</b>			
Interest expense on other money market deposits		(799)	(1,554)
Interest expense on funds borrowed		(35,789)	(24,682)
Interest expense on debt securities issued		(26,145)	(55,494)
Other interest expense		(9,685)	(6,765)
<b>Total interest expense</b>		<b>(72,418)</b>	<b>(88,495)</b>
<b>Net interest income</b>		<b>54,211</b>	<b>64,595</b>
Fees and commission income	4	6,821	8,043
Fees and commission expense	4	(1,155)	(628)
<b>Net fee and commission income</b>	4	<b>5,666</b>	<b>7,415</b>
Net trading income and foreign exchange gain, net	5, 24	5,476	(31,186)
Other operating income	6	20,464	2,698
<b>Total operating income</b>		<b>85,817</b>	<b>43,522</b>
<b>Net impairment loss on financial assets</b>	14	<b>(3,330)</b>	<b>(5,544)</b>
Personnel expenses	7	(25,206)	(26,102)
Depreciation and amortisation	15, 16	(3,579)	(4,474)
Administrative expenses	8	(20,288)	(19,556)
Taxes other than on income		(3,261)	(2,091)
Other expenses		(3,907)	(16,545)
<b>Total operating expenses</b>		<b>(56,241)</b>	<b>(68,768)</b>
<b>Profit / (Loss) before income tax</b>		<b>26,246</b>	<b>(30,790)</b>
Income tax	9	(11,295)	4,223
<b>Profit / (Loss) from continuing operations</b>		<b>14,951</b>	<b>(26,567)</b>
<b>Discontinued operations</b>			
<b>Loss from discontinued operation, net of tax</b>	31	<b>-</b>	<b>(95,518)</b>
<b>Profit / (Loss)</b>		<b>14,951</b>	<b>(122,085)</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 31 December 2016**

(Currency - In thousands of Turkish Lira)

		<b>Audited</b>	<b>Audited</b>
	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Loss for the year</b>		<b>14,951</b>	<b>(122,085)</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurement of employee termination benefits	23	(195)	(673)
Related tax		39	135
		(156)	(538)
<i>Items that are or may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations		-	42,368
Available-for-sale reserve			
Net change in fair value of available-for-sale financial assets		(2,600)	1,749
Net change in fair value of available-for-sale financial assets transferred to profit or loss		379	(3,349)
Income tax on other comprehensive income/(loss)		443	365
		<b>(1,778)</b>	<b>41,133</b>
<b>Other comprehensive income/(loss) for the year, net of income tax</b>		<b>(1,934)</b>	<b>40,595</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>13,017</b>	<b>(81,490)</b>

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Consolidated Statement of Changes in Equity For the year ended 31 December 2016

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Share premium	Adjustment to share capital	Legal reserves	Available-for-sale reserve, net of tax	Currency translation reserve	Retained earnings	Total
At 1 January 2015		337,292	20,121	21,701	16,168	4,109	(42,368)	69,695	426,718
<b>Total comprehensive income for the year</b>									
Loss for the year		-	-	-	-	-	-	(122,085)	(122,085)
<b>Other comprehensive income</b>									
Foreign currency translation differences	24	-	-	-	-	-	42,368	-	42,368
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	(538)	(538)
Net change in fair value of available-for-sale financial assets, net of tax	24	-	-	-	-	(1,235)	-	-	(1,235)
<b>Total other comprehensive income</b>		-	-	-	-	(1,235)	42,368	(538)	40,595
<b>Total comprehensive income for the year</b>		-	-	-	-	(1,235)	42,368	(122,623)	(81,490)
<b>Contributions by and distributions to owners</b>									
Dividends to equity holders		-	-	-	-	-	-	-	-
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	-	-	-
<b>Transfers</b>		-	-	-	-	-	-	-	-
<b>At 31 December 2015</b>		<b>337,292</b>	<b>20,121</b>	<b>21,701</b>	<b>16,168</b>	<b>2,874</b>	<b>-</b>	<b>(52,928)</b>	<b>345,228</b>
At 1 January 2016		337,292	20,121	21,701	16,168	2,874	-	(52,928)	345,228
<b>Total comprehensive income for the year</b>									
Profit for the year		-	-	-	-	-	-	14,951	14,951
<b>Other comprehensive income</b>									
Remeasurements of defined benefit liability/(asset), net of tax	23	-	-	-	-	-	-	(156)	(156)
Net change in fair value of available-for-sale financial assets, net of tax	24	-	-	-	-	(1,778)	-	-	(1,778)
<b>Total other comprehensive income</b>		-	-	-	-	(1,778)	-	(156)	(1,934)
<b>Total comprehensive income for the year</b>		-	-	-	-	(1,778)	-	14,795	13,017
<b>Contributions by and distributions to owners</b>									
Dividends to equity holders		-	-	-	-	-	-	-	-
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	-	-	-
<b>Transfers</b>		-	-	-	-	-	-	-	-
<b>At 31 December 2016</b>		<b>337,292</b>	<b>20,121</b>	<b>21,701</b>	<b>16,168</b>	<b>1,096</b>	<b>-</b>	<b>(38,133)</b>	<b>358,245</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Consolidated Statement of Cash Flows  
For the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)*

	<i>Note</i>	<b>Audited 2016</b>	<b>Audited 2015</b>
<b>Cash flows from operating activities</b>			
Interest received		110,143	168,059
Interest paid		(80,158)	(88,782)
Fees and commissions received		6,821	8,043
Trading income		1,175	917
Recoveries from non-performing loans		4,280	40,484
Fees and commissions paid		(1,155)	(628)
Cash payments to employees and other parties		(29,992)	(35,615)
Cash received from other operating activities		9,224	2,698
Cash paid for other operating activities		(23,230)	(44,672)
Income taxes paid		(61)	(183)
Loss on sale of discontinued operations	31	-	(108,532)
		<b>(2,953)</b>	<b>(58,211)</b>
Change in banks and financial institutions		45	406
Change in trading assets		(1,495)	(12,830)
Change in reserve deposits at central banks		5,477	(36,864)
Change in loans and finance lease receivables		(137,184)	204,354
Change in other assets		37,856	(22,002)
Change in deposit from other banks		-	(10,672)
Change in customer deposits		-	(77,321)
Change in interbank and other money market deposits		3,395	(439)
Change in other liabilities		(12,251)	712
<b>Net cash used in operating activities</b>		<b>(107,110)</b>	<b>(12,867)</b>
<b>Cash flows from investing activities</b>			
Disposal of discontinued operation, net of cash disposed of		-	26,801
Purchases of investment securities	13	(49,111)	(57,392)
Proceeds from sale and redemption of investment securities	13	47,889	97,436
Purchases of property and equipment	15	(1,388)	(906)
Proceeds from the sale of premises and equipment	15	295	292
Purchases of intangible assets	16	(832)	(970)
<b>Net cash provided by investing activities</b>		<b>(3,147)</b>	<b>65,261</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		1,048,517	2,155,537
Repayment of debt securities		(849,430)	(2,065,440)
Proceeds from funds borrowed		50,909	292,550
Repayment of funds borrowed		(208,882)	(477,979)
<b>Net cash (used in) / provided by financing activities</b>		<b>41,114</b>	<b>(95,332)</b>
Effect of net foreign exchange difference on cash and cash equivalents		7,374	7,374
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(61,769)</b>	<b>(38,984)</b>
Cash and cash equivalents at 1 January	10	131,886	170,870
<b>Cash and cash equivalents at 31 December</b>	10	<b>70,117</b>	<b>131,886</b>

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

### **1. Corporate information**

#### **General**

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

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

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

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

### **1. Corporate information (continued)**

#### **Nature of activities of the Bank / Group**

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

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

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

As at 31 December 2016, the Bank provides services through its head office. As at 31 December 2016, the number of employees for the Bank and its consolidated subsidiary are 92 and 3, respectively (2015 – 133 and 2).

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

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

## **2. Basis of preparation**

### **2.1 Statement of compliance**

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

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

The consolidated financial statements as at 31 December 2016 of the Bank are authorised for issue by the management on 23 February 2017. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

### **2.2 Basis of measurement**

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

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

### **2.3 Functional and presentation currency**

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

### **2.4 Use of estimates and judgements**

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are as follows;

#### **Key sources of estimation uncertainty**

##### *Impairment of available-for-sale equity instruments*

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

### **As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

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

#### **2.4 Use of estimates and judgements *(continued)***

##### **Key sources of estimation uncertainty *(continued)***

###### *Allowances for credit losses*

The Group reviews its loan portfolio to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of such loans and finance lease receivables as at 31 December 2016 is TL 1,275,841 (31 December 2015 – TL 1,271,093), including TL 76,153 (TL 61,511) of loans and finance lease receivables in arrears, net of impairment allowance of TL 23,564 (31 December 2015: TL 31,982).

###### *Determining fair values*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. As at 31 December 2016, the carrying amount of derivative financial instrument assets TL 5,996 (2015 – TL 5,858) and the carrying amount of derivative financial instrument liabilities is TL 1,795 (2015 – TL 31,620).

###### *Income taxes*

The Group is subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 31 December 2016, the Group does not have any net current tax liabilities (2015– TL 61).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly. As at 31 December 2016, the Group carries a net deferred tax assets amounting to TL 5,760 (2015 – TL 16,633 deferred tax assets).

Deferred tax assets have not been recognised in respect of the remaining tax losses amounting to TL 55,083, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.



# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

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

#### **2.4 Use of estimates and judgements *(continued)***

##### **Key sources of estimation uncertainty *(continued)***

###### *Employee termination benefits*

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The carrying value of employee termination benefit provisions as at 31 December 2016 is TL 1,063 (31 December 2015 – TL 864).

##### **Critical accounting judgements in applying the Group's accounting policies**

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

###### *Financial asset and liability classification*

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

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

#### **2.5 Changes in accounting policies**

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

### **3. Significant accounting policies**

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

#### **3.1 Basis of consolidation**

##### *i) Subsidiaries*

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

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

##### *(ii) Transactions eliminated on consolidation*

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

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### **3. Significant accounting policies (continued)**

#### **3.2 Foreign currency**

##### **i) Foreign currency transactions**

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

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

	<b>USD / TL (full)</b>	<b>EUR / TL (full)</b>
31 December 2015	2.9084	3.1921
31 December 2016	3.5192	3.7099

#### **3.3 Interest**

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

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

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

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for available-for-sale investment securities calculated on an effective interest basis,
- interest income and expense arising from currency swaps, cross currency swaps, futures and interest rate cap/floor agreements which are presented as other interest income and expense in the accompanying consolidated financial statements.

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

#### **3.4 Fees and commission**

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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### **3. Significant accounting policies (continued)**

#### **3.5 Net trading income**

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

#### **3.6 Dividends**

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

#### **3.7 Income tax expense**

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

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

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

Deferred tax is not recognised for:

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

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

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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### **3. Significant accounting policies (continued)**

#### **3.8 Financial assets and liabilities**

##### *Recognition*

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

##### *Classification*

##### Financial assets:

The Group classifies its financial assets into one of the following categories:

Loans and receivables

Held to maturity

Available-for-sale; and

At fair value through profit or loss, and within this category as: held for trading.

See 3.9, 3.10, 3.11 and 3.12.

##### Financial liabilities:

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

##### *Derecognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

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

##### *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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### **3. Significant accounting policies (continued)**

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

##### *Amortised cost measurement*

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

##### *Fair value measurement*

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

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

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

##### *Derivative financial instruments*

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

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

##### *Identification and measurement of impairment*

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

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

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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### **3. Significant accounting policies (continued)**

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

##### *Identification and measurement of impairment (continued)*

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

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

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

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

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

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

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

##### *Repurchase and resale transactions*

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

#### **3.9 Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

#### **3.10 Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

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

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

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

#### **3.12 Investment securities**

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

##### *Held-to-maturity*

Held-to-maturity securities are financial assets with fixed maturities that the Group has the intent and ability to hold until maturity. Investment securities held-to-maturity are initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in the consolidated statement of income.

##### *Fair value through profit or loss*

As at 31 December 2016, the Group does not have any investment securities at fair value through profit or loss (31 December 2015 – none).

##### *Available-for-sale financial investments*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the “Available-for-sale reserve”.



# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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### **3. Significant accounting policies (continued)**

#### **3.12 Investment securities (continued)**

##### *Available-for-sale financial investments (continued)*

Interest income is recognised in consolidated statement of income using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the consolidated statement of income.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from consolidated statement of other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

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

#### **3.13 Property and equipment**

##### *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

##### *Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### *Depreciation*

Depreciation is recognised in the consolidated statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful lives for the current and comparative periods are as follows:

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

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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### **3. Significant accounting policies (continued)**

#### **3.14 Intangible assets**

##### **i) Goodwill**

Goodwill arises on the acquisition of subsidiaries or businesses.

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

##### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

##### **ii) Software**

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

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

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

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

#### **3.15 Assets held for sale**

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

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

#### **3.16 Investment property**

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

#### **3.17 Leases (continued)**

##### **The Group as lessee**

###### ***Operating leases***

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

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

###### ***Finance leases***

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

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

##### **The Group as lessor**

###### ***Finance leases***

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

#### **3.18 Impairment of non-financial assets**

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

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

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

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies *(continued)***

#### **3.19 Deposits, funds borrowed and debt securities issued**

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

#### **3.20 Provisions**

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

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

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

#### **3.21 Employee benefits**

##### ***(i) Reserve for employee severance payments***

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

##### ***(ii) Short-term benefits***

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

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

##### ***(iii) Other benefits***

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

#### **3.22 Fiduciary assets**

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

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

### **As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

#### **3. Significant accounting policies *(continued)***

##### **3.23 Segment reporting**

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

##### **3.24 New standards and interpretations not yet adopted**

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

##### **IFRS 9 Financial Instruments**

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

##### **IFRS 15 Revenue from Contracts with customers**

The standard replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognising revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

##### **IFRS 16 Leases**

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on- balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

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*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

#### **3.24 New standards and interpretations not yet adopted (continued)**

##### **IFRIC 22 – Foreign Currency Transactions and Advance Consideration**

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

##### **Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative**

IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in consolidated financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

##### **Amendments to IAS 12 Income Taxes– Recognition of Deferred Tax Assets for Unrealised Losses**

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

##### **Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions**

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

### **As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

#### **3. Significant accounting policies *(continued)***

##### **3.24 New standards and interpretations not yet adopted *(continued)***

###### **Annual Improvements to IFRSs 2014-2016 Cycle**

###### **IFRS 1 “First Time Adoption of International Financial Reporting Standards”**

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of ‘Annual Improvements to IFRSs 2012-2014 Cycle’ related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

###### **IFRS 12 “Disclosure of Interests in Other Entities”**

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

###### **IAS 28 “Investments in Associates and Joint Ventures”**

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***4. Net fee and commission income**

	<b>2016</b>	<b>2015</b>
<b>Fee and commission income</b>		
Letters of guarantee, credit and other guarantees	4,749	5,524
Credit related fees and commissions	1,918	2,311
Banking service commissions	18	14
Other	136	194
<b>Total fee and commission income</b>	<b>6,821</b>	<b>8,043</b>
<b>Fee and commission expense</b>		
Corresponding bank fees	(226)	(232)
Other	(929)	(396)
<b>Total fee and commission expense</b>	<b>(1,155)</b>	<b>(628)</b>
<b>Net fee and commission income</b>	<b>5,666</b>	<b>7,415</b>

**5. Net trading income and net foreign exchange gain**

	<b>2016</b>	<b>2015</b>
Foreign exchange gains / (losses), net	1,196	(32,102)
Income from investment securities, net	40	657
Income from trading securities, net	4,240	259
<b>Total</b>	<b>5,476</b>	<b>(31,186)</b>

**6. Other operating income**

	<b>2016</b>	<b>2015</b>
Gain on sales of assets held for sale	18,120	1,295
Rental income	618	674
Other	1,726	729
<b>Total</b>	<b>20,464</b>	<b>2,698</b>



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***7. Personnel expenses**

	<b>2016</b>	<b>2015</b>
Wages and salaries	18,605	21,604
Other fringe benefits	2,976	1,354
Compulsory social security obligations	2,563	1,824
Provision for employee termination and vacation benefits	1,062	1,320
<b>Total</b>	<b>25,206</b>	<b>26,102</b>

The number of employees for the years is:

	<b>2016</b>	<b>2015</b>
The Bank	92	133
Subsidiary	3	2
<b>Total</b>	<b>95</b>	<b>135</b>

**8. Administrative expenses**

	<b>2016</b>	<b>2015</b>
Information technology expenses	4,302	2,423
Operating lease expenses	2,779	2,607
Communication expenses	2,239	2,464
Consultancy expenses	1,786	4,458
Advertising expenses	1,095	704
Consumer trade decision expenses	1,034	1,565
Human resources intermediary expenses	720	627
Lawyers expenses	714	421
Transportation expenses	659	698
Insurance expenses	549	522
Lightening expenses	548	630
Traveling expenses	456	567
Others	3,407	1,870
<b>Total</b>	<b>20,288</b>	<b>19,556</b>

**9. Taxation**

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

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

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)**

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

As at 31 December 2016 and 2015, prepaid income taxes are netted off with the current tax liability as stated below:

	<b>2016</b>	<b>2015</b>
Income tax liability	-	(61)
<b>Current tax liabilities</b>	<b>-</b>	<b>(61)</b>

Reflected as:

	<b>2016</b>	<b>2015</b>
Current tax liabilities	-	(61)

**Income tax recognised in the statement of income**

The components of income tax expense as stated below:

	<b>2016</b>	<b>2015</b>
<b>Current tax</b>		
Current year	(444)	(370)
<b>Deferred tax (expense) / income</b>		
Relating to origination and reversal of temporary differences	(10,851)	4,593
<b>Income tax reported in the statement of income</b>	<b>(11,295)</b>	<b>4,223</b>

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the years ended 31 December 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>
Profit/Loss before income tax (*)	26,246	(139,322)
Income tax using the domestic corporation tax rate 20%	(5,249)	27,864
Non-deductible expenses	1,074	(20,552)
Reversal of previously recognised tax losses	(7,120)	(3,089)
<b>Total income tax expense in the statement of income</b>	<b>(11,295)</b>	<b>4,223</b>

(\*) For the year ended 31 December 2015, income tax effect of discontinued operations is included.

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

	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement
	2016	2016	2016	2015	2015	2015
Derivative financial instruments	359	(1,199)	(5,992)	6,324	(1,172)	228
Liability for defined benefit plans	1,381	-	(450)	1,831	-	(30)
Property and equipment	-	(670)	(83)	-	(587)	(17)
Tax losses	5,415	-	(3,937)	9,352	-	1,043
Investment property	-	(982)	(46)	-	(936)	-
Others	1,237	219	(343)	1,821	(61)	3,369
<b>Deferred tax asset / (liability)</b>	<b>8,392</b>	<b>(2,632)</b>		<b>19,328</b>	<b>(2,756)</b>	
<b>Set off of tax</b>	<b>(2,632)</b>	<b>2,632</b>		<b>(2,695)</b>	<b>2,695</b>	
<b>Net tax asset / (liability)</b>	<b>5,760</b>	<b>-</b>		<b>16,633</b>	<b>(61)</b>	
<b>Deferred tax income / (expense)</b>			<b>(10,851)</b>			<b>4,593</b>

As at 31 December 2016, TL 5,415 of deferred tax assets are recognised for TL 27,075 of tax losses of the Group (31 December 2015: TL 9,352 of deferred tax assets and TL 46,761 of tax losses), unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets have not been recognised in respect of the remaining tax losses amounting to TL 55,083.

Reflected as:

	2016	2015
Deferred tax assets	5,760	16,633
Deferred tax liabilities	-	61

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

	2016	2015
Deferred tax assets, net at 1 January	16,572	11,984
Deferred tax recognised in the statement of income	(10,851)	4,593
Deferred income tax recognised in equity	39	365
Exchange rate differences	-	(370)
<b>Deferred tax assets, net at the end of the year</b>	<b>5,760</b>	<b>16,572</b>

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

	2016	2015
Tax losses	55,083	15,447
	<b>55,083</b>	<b>15,447</b>

**Tax losses carried forward**

Recognised tax losses carried forward expire as follows.

	2016	2015
2018	-	11,147
2019	-	12,495
2020	9,581	23,119
2021	17,494	-
	<b>27,075</b>	<b>46,761</b>

**10. Cash and cash equivalents**

	2016	2015
Cash and balances with central banks	87	130
- <i>Cash on hand</i>	12	10
- <i>Balances with central banks</i>	75	120
Due from banks and financial institutions	44,965	17,386
Interbank and other money market placements	25,065	114,391
<b>Cash and cash equivalents in the statement of financial position</b>	<b>70,117</b>	<b>131,907</b>

Less: Due from banks with original maturities of more than 3 months and restricted balance

- (21)

<b>Cash and cash equivalents in the statement of cash flows</b>	<b>70,117</b>	<b>131,886</b>
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**11. Reserve deposits at central banks**

	2016	2015
Turkish Lira	1,744	5,338
Foreign currency	150,899	152,563
	<b>152,643</b>	<b>157,901</b>

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	2016	2015
<b>Debt instruments</b>		
Turkish government bonds-TL denominated	6,280	4,190
<b>Derivative transactions</b>		
Derivative financial instruments	5,996	5,858
<b>Total trading assets</b>	<b>12,276</b>	<b>10,048</b>
<b>Derivative transactions</b>		
Derivative financial instruments	1,795	31,620
<b>Total trading liabilities</b>	<b>1,795</b>	<b>31,620</b>

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

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

	2016		
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
<b>Derivatives held for trading</b>			
Forward purchase contracts	15	6	3,001
Forward sale contracts	1	9	3,000
Currency swap purchases	95	255	163,302
Currency swap sales	3,894	159	159,930
Interest rate swaps	1,991	1,366	105,576
<b>Total derivatives held for trading</b>	<b>5,996</b>	<b>1,795</b>	<b>434,809</b>
	2015		
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
<b>Derivatives held for trading</b>			
Forward purchase contracts	-	-	180
Forward sale contracts	12	-	3,114
Currency swap purchases	2	357	177,218
Currency swap sales	5,332	30,613	181,508
Interest rate swaps	512	650	36,345
<b>Total derivatives held for trading</b>	<b>5,858</b>	<b>31,620</b>	<b>398,365</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***13. Investment and loaned securities**

	<b>2016</b>	<b>2015</b>
Available-for-sale investment securities	47,290	48,082
Loaned securities	18,444	14,550
Held-to-maturity investment securities	-	7,026
	<b>65,734</b>	<b>69,658</b>

**Held-to-maturity investment securities**

As at 31 December 2016, the Group does not have any held-to-maturity investment securities (31 December 2015: TL 7,026).

**Available-for-sale investment securities**

	<b>2016</b>	<b>2015</b>
<b>Available-for-sale investment securities at fair value</b>		
<b>Debt instruments</b>		
Turkish government bonds – TL denominated, net	47,290	48,082
- <i>Gross amount</i>	47,290	48,082
<b>Total available-for-sale securities at fair value</b>	<b>47,290</b>	<b>48,082</b>

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

As at 31 December 2016, available-for-sale investment securities with carrying value of TL 24,928. (31 December 2015 – TL 19,971) are kept in the Central Bank of Turkey and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for possible stock exchange and money market operations although they are not pledged.

**Loaned securities**

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

	<b>2016</b>	<b>2015</b>
Loaned securities from available-for-sale securities	18,444	13,403
Loaned securities from trading securities	-	1,147
<b>Total loaned securities</b>	<b>18,444</b>	<b>14,550</b>
Related liability (Note19)	17,892	14,508

Repurchase agreements mature within one month.

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

	<b>2016</b>	<b>2015</b>
Balance at 1 January	62,632	119,134
Additions	49,111	57,393
Disposals (sale and redemption)	(42,010)	(97,436)
Change in interest accruals	(3,999)	(9,431)
Portfolio transfer <sup>(1)</sup>	-	(7,000)
Sale effect of JSC BankPozitiv Kazakhstan	-	(28)
<b>Balance at end of year end</b>	<b>65,734</b>	<b>62,632</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables**

<b>2016</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Foreign currency indexed</b>	<b>Total</b>
Corporate loans and finance lease receivables	233,824	843,982	76,482	1,154,288
Consumer loans	64,460	-	4,504	68,964
<b>Total loans and finance lease receivables</b>	<b>298,284</b>	<b>843,982</b>	<b>80,986</b>	<b>1,223,252</b>
Loans and finance lease receivables in arrears	76,153	-	-	76,153
Less: Specific reserve for impairment	(16,718)	-	-	(16,718)
Less: Portfolio reserve for impairment	(6,846)	-	-	(6,846)
	<b>350,873</b>	<b>843,982</b>	<b>80,986</b>	<b>1,275,841</b>
<b>2015</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Foreign currency indexed</b>	<b>Total</b>
Corporate loans and finance lease receivables	253,773	837,237	53,101	1,144,111
Consumer loans	90,249	-	7,204	97,453
<b>Total loans and finance lease receivables</b>	<b>344,022</b>	<b>837,237</b>	<b>60,305</b>	<b>1,241,564</b>
Loans and finance lease receivables in arrears	61,511	-	-	61,511
Less: Specific reserve for impairment	(15,681)	-	-	(15,681)
Less: Portfolio reserve for impairment	(16,301)	-	-	(16,301)
	<b>373,551</b>	<b>837,237</b>	<b>60,305</b>	<b>1,271,093</b>

As at 31 December 2016, loans and finance lease receivables with floating rates are TL 267,113 (2015 – TL 231,379) and fixed interest rates are TL 956,139 (2015 – TL 1,010,185).



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables (continued)**

Movements in non-performing loans and finance lease receivables:

	2016	2015
Non-performing loans and finance lease receivables at 1 January	61,511	101,657
Sale effect of JSC BankPozitiv Kazakhstan	-	(20,085)
Additions to non-performing loans and finance lease receivables	30,995	37,096
Recoveries	(1,723)	(40,484)
Write-offs <sup>(1)</sup>	(14,630)	(16,673)
<b>Non-performing loans and finance lease receivables at the end of year</b>	<b>76,153</b>	<b>61,511</b>

<sup>(1)</sup> TL 14,630 of non-performing loans and finance lease receivables were sold to an asset management company as at 31 December 2016 (31 December 2015 – TL 16,673).

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

	2016	2015
Reserve at the beginning of the year	31,982	58,650
Provision net of recoveries	3,330	5,544
- <i>Provision for loan and finance lease receivables impairment</i>	13,841	11,648
- <i>Recoveries</i>	(10,511)	(6,104)
Write-offs <sup>(1)</sup>	(11,748)	(10,699)
Sale effect of JSC BankPozitiv Kazakhstan	-	(21,513)
<b>Reserve at the end of the year</b>	<b>23,564</b>	<b>31,982</b>

<sup>(1)</sup> TL 11,748 (31 December 2015 – TL 10,699) of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans to an asset management amounting to TL 14,630 as at 31 December 2016 (31 December 2015 – TL 16,673).

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***15. Property and equipment**

	<b>Land and buildings</b>	<b>Office equipment, furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Motor vehicles</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 January 2015	1,637	22,353	6,503	920	31,413
Additions	-	887	19	-	906
Disposals	-	(150)	(142)	-	(292)
Sale effect of JSC BankPozitiv Kazakhstan	(1,637)	(8,203)	-	(843)	(10,683)
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>14,887</b>	<b>6,380</b>	<b>77</b>	<b>21,344</b>
Balance at 1 January 2016	-	14,887	6,380	77	21,344
Additions	-	903	-	485	1,388
Disposals	-	(293)	-	-	(293)
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>15,497</b>	<b>6,380</b>	<b>562</b>	<b>22,439</b>
<b>Depreciation</b>					
Balance at 1 January 2015	(227)	(16,754)	(5,983)	(433)	(23,397)
Depreciation charge for the year	-	(1,052)	(39)	(70)	(1,161)
Disposals	-	-	-	-	-
Sale effect of JSC BankPozitiv Kazakhstan	227	5,043	-	359	5,629
<b>Balance at 31 December 2015</b>	<b>-</b>	<b>(12,763)</b>	<b>(6,022)</b>	<b>(144)</b>	<b>(18,929)</b>
Balance at 1 January 2016	-	(12,763)	(6,022)	(144)	(18,929)
Depreciation charge for the year	-	(982)	(106)	(40)	(1,128)
Disposals	-	283	-	-	283
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>(13,462)</b>	<b>(6,128)</b>	<b>(184)</b>	<b>(19,774)</b>
<b>Carrying amounts</b>					
Balance at 31 December 2014	1,410	5,599	520	487	8,016
Balance at 31 December 2015	-	2,124	358	(67)	2,415
Balance at 31 December 2016	-	2,035	252	378	2,665

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***16. Intangible assets**

	<b>Goodwill</b>	<b>Purchased software</b>	<b>Developed software</b>	<b>Total</b>
<b>Cost</b>				
Balance at 1 January 2015	70,731	31,595	546	102,872
Additions	-	970	-	970
Disposals	-	-	-	-
Sale effect of JSC BankPozitiv Kazakhstan	-	(5,409)	(8)	(5,417)
<b>Balance at 31 December 2015</b>	<b>70,731</b>	<b>27,156</b>	<b>538</b>	<b>98,425</b>
Balance at 1 January 2016	70,731	27,156	538	98,425
Additions	-	832	-	832
Disposals	-	(72)	-	(72)
<b>Balance at 31 December 2016</b>	<b>70,731</b>	<b>27,916</b>	<b>538</b>	<b>99,185</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 January 2015	(70,731)	(17,582)	(309)	(88,622)
Amortisation charge for the year	-	(3,313)	-	(3,313)
Disposals	-	-	-	-
Exchange rate differences	-	2,692	4	2,696
<b>Balance at 31 December 2015</b>	<b>(70,731)</b>	<b>(18,203)</b>	<b>(305)</b>	<b>(89,239)</b>
Balance at 1 January 2016	(70,731)	(18,203)	(305)	(89,239)
Amortisation charge for the year	-	(2,451)	-	(2,451)
Disposals	-	-	-	-
<b>Balance at 31 December 2016</b>	<b>(70,731)</b>	<b>(20,654)</b>	<b>(305)</b>	<b>(91,690)</b>
<b>Carrying amounts</b>				
Balance at 31 December 2014	-	14,013	237	14,250
Balance at 31 December 2015	-	8,953	233	9,186
Balance at 31 December 2016	-	7,262	233	7,495

Intangible assets consist of purchased software and developed software.

The carrying amount of goodwill at 31 December 2016 was nil (31 December 2015 – none).

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***17. Investment property**

In 2014, the Group classified its Hotel in Gaziantep, previously recorded in Other Assets under Assets Held for Resale, as Investment Property in terms of change in right of repurchase. The Group has started to earn rental income from this property and therefore in accordance with IAS 40, the Group has presented the Hotel as Investment Property. The fair value of the Hotel has been assessed at TL 58,250.

Accordingly, the Hotel was valued by an independent appraiser. According to the report dated 2 May 2014 prepared by a real estate appraisal company, which is included in the list to provide valuation service by the Capital Markets Board of Turkey ("CMB"), the fair value of hotel is determined as TL 56,155 for shares of the land at that time and building owned by the Group determined according to the discounted cash flow projections approach. Investment property comprises a commercial properties that are leased to third parties. Lease contains an initial non-cancellable period of 10 years, with annual increases in rents indexed to consumer prices. Rental income from investment property amounting to TL 674 has been recognised in other income. The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate which is 3%, occupancy rate which is 40% and discount rate which is 11%.

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:

	<b>1 January – 31 December 2016</b>	<b>1 January – 31 December 2015</b>
Balance at 1 January	57,292	56,155
Reclassification from other assets	-	-
Additions	38	1,137
Disposals	-	-
<i>Accounted in other income</i>		
Change in fair value	920	-
<b>Total</b>	<b>58,250</b>	<b>57,292</b>

**18. Other assets**

	<b>2016</b>	<b>2015</b>
Assets held for resale	28,000	3,267
Prepaid expenses	5,424	5,158
Collateral given for derivative and other transactions	788	50,874
Prepaid taxes	106	350
Advances given	47	80
Others	2,033	3,632
	<b>36,398</b>	<b>63,361</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***19. Deposits****Other money market deposits**

	2016		2015	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
<b>Obligations under repurchase agreements</b>	<b>17,892</b>	-	<b>14,508</b>	-
<i>Central Bank of Turkey</i>	<i>16,246</i>	-	<i>14,294</i>	-
<i>Other</i>	<i>1,646</i>	-	<i>214</i>	-
<b>Total</b>	<b>17,892</b>	-	<b>14,508</b>	-

As at 31 December 2016, other money market deposits of TL 17,892 (31 December 2015 – TL 14,508) have fixed interest rates.

**20. Funds borrowed**

	2016		2015	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
<b>Short-term<sup>(1)</sup></b>				
Fixed interest	8,269	423,369	10,044	237,995
Floating interest	-	16,667	-	29,104
<b>Long-term<sup>(1)</sup></b>				
Fixed interest	-	196,106	-	335,393
Floating interest	-	30,947	-	68,717
<b>Total</b>	<b>8,269</b>	<b>667,089</b>	<b>10,044</b>	<b>671,209</b>

<sup>(1)</sup> Based on original maturities.

Repayments of long term borrowing are as follows:

	2016		2015	
	Floating rate	Fixed rate	Floating rate	Fixed rate
2016	-	-	28,980	167,715
2017	17,684	-	28,661	17,387
2018	13,263	23,018	11,076	17,387
2019	-	23,018	-	-
Thereafter	-	150,069	-	132,904
<b>Total</b>	<b>30,947</b>	<b>196,106</b>	<b>68,717</b>	<b>335,393</b>

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

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

As at 31 December 2016 and 2015, the Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***21. Debt securities issued**

	2016		2015	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign Currency
Debt securities issued at amortised cost	51,150	529,337	210,233	437,133
<b>Total</b>	<b>51,150</b>	<b>529,337</b>	<b>210,233</b>	<b>437,133</b>

**22. Other liabilities**

	2016	2015
Current accounts of loan customers	35,429	51,019
Collateral received for derivative transactions	3,730	-
Unearned commission income	3,306	3,194
Taxes and funds payables	2,228	3,117
Insurance payables	65	81
Others	1,503	2,744
	<b>46,261</b>	<b>60,155</b>

**23. Provisions**

	2016	2015
Bonus provision	3,292	5,965
Vacation pay liability	1,242	1,183
Employee termination benefits	1,063	864
Other <sup>(1)</sup>	1,544	1,230
	<b>7,141</b>	<b>9,242</b>

<sup>(1)</sup> The provision provided for legal cases amounting to TL 1,473 (31 December 2015: TL 1,152) is included under other provisions.

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

	2016	2015
At 1 January	864	143
Charge / (reversal) during the year	4	48
Actuarial gain <sup>(1)</sup>	195	673
<b>At 31 December</b>	<b>1,063</b>	<b>864</b>

<sup>(1)</sup> The actuarial gain amounting to TL 193 (31 December 2015: TL 673 gain) was accounted under retained earnings.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***23. Provisions (continued)****Employee termination benefits**

In accordance with existing social legislation in Turkey, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2016 and 2015, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the reporting date.

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

	2016	2015
Discount rate	3.81%	3.81%
Expected rates of salary/limit increases	5.00%	5.00%

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

**Other provisions**

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

**24. Capital and reserves**

	2016	2015
<b>Number of common shares, TL 0.1 (in full TL),</b> par value (Authorised and issued)	3.372.923.500	3.372.923.500

**Share capital and share premium**

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

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

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***24. Capital and reserves (continued)****Legal reserves**

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

**Other reserves**

Movement in other reserves are as follows:

	<b>Available- for-sale reserve</b>	<b>Foreign currency translation reserve</b>	<b>Total</b>
At 1 January 2015	<b>4,109</b>	<b>(42,368)</b>	<b>(38,259)</b>
Net unrealised gains on available-for-sale financial investments	(1,235)	-	(1,235)
Foreign currency translation	-	42,368	42,368
<b>At 31 December 2015</b>	<b>2,874</b>	<b>-</b>	<b>2,874</b>
At 1 January 2016	<b>2,874</b>	<b>-</b>	<b>2,874</b>
Net unrealised gains on available-for-sale financial investments	(1,778)	-	(1,778)
<b>At 31 December 2016</b>	<b>1,096</b>	<b>-</b>	<b>1,096</b>

**Available-for-sale reserve**

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

**Foreign currency translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations. As at 31 December 2016, the Group has nil currency translation reserves (2015: None).

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

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

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

**Dividends**

No dividend payments were made as at 31 December 2016 (31 December 2015: None).



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***25. Related parties**

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

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

	Shareholders		Directors and key management personnel		Others	
	2016	2015	2016	2015	2016	2015
<b>Loans and finance lease receivables</b>						
At 1 January	-	-	-	1	-	-
At end of the year	-	-	27	-	-	-
Interest income	-	-	5	18	-	-

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

	Shareholders		Directors and key management personnel		Others	
	2016	2015	2016	2015	2016	2015
<b>Funds borrowed</b>						
At 1 January	218,514	185,851	-	-	2,920	70,926
At end of the year	282,408	218,514	-	-	7,073	2,920
Interest expense	(6,860)	(6,621)	-	-	(1,782)	(1,519)

Other balances with related parties:

Related party		Due from banks	Deposits	Other assets	Other liabilities	Non-cash loans
Shareholders	2016	-	-	-	3	28,185
	2015	-	-	-	3	23,727
Directors and key management personnel	2016	-	14	-	-	-
	2015	-	-	-	-	-
Others	2016	-	-	-	10,955	18
	2015	-	-	-	16	1,181

Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expense	Other operating income	Other operating expense
Shareholders	2016	-	-	(1)	1	-
	2015	-	-	(18)	16	-
Directors and key management personnel	2016	-	-	-	-	-
	2015	-	-	-	2	-
Others	2016	-	-	(451)	4	-
	2015	-	-	(66)	1	-

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***25. Related parties (continued)****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 8,665 (2015 – TL 10,105) comprising salaries and other short-term benefits.

**26. Commitments and contingencies**

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

	2016	2015
Letters of guarantee	377,394	630,377
Letters of credit	55,655	67,801
Other guarantees	14,670	21,422
Commitments	12,216	29,095
<b>Total non-cash loans</b>	<b>459,935</b>	<b>748,695</b>

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

1- A complaint have filed in Enforcement Court due to the reason that (i) the legal base of enforcement proceeding is not an acceptable document for enforcement proceeding with judgement and (ii) the enforcement proceeding is illegal. In response to the Bank’s complaint, the judge responsible from the file has granted a temporary injunction and determined the first hearing date as 27 October 2016. Then, during the judiciary recess, the newly appointed judge has decided to revoke from temporary injunction and the enforcement proceeding was reinitiated. Since the Bank objected to the decision, the court has not decided to grant a temporary injunction again. On 27 October 2016, the court gave its award as annulment of the enforcement proceeding. Gaziantep Çağlar appealed against ruling and the justified decision of the court is expected. The file has been sent to the appeal court and the investigation is continuing.

2- A Negative Declaratory Judgement (the claim to determine that the Bank has no debt) has been filed to stop the enforcement proceeding again, due to the reason that the judge has decided to revoke from temporary injunction. The court granted a temporary injunction and the enforcement proceeding stopped regarding the guarantee letter with the amount of TL 60,242 given by the Bank to the court. The court determined 23 February 2017 as the preliminary examination day.

3- A criminal complaint has filed to Gaziantep Public Prosecution Office against the suspects who has criminal attempt for fraud. The Prosecutor’s investigation is pending. The Prosecution Office has not yet made an official notification to the Bank regarding the result of the investigation.

The Bank’s in-house Legal Department is working on the entire above-stated legal process with 2 outsource legal offices. Beside the results of criminal investigation conducted by the Prosecution Office, the Bank management expects that the legal cases will be finalized in favor of Bank.

**Fiduciary activities**

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

## **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

### **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

#### **27. Financial risk management**

##### **Strategy in using financial instruments**

BankPozitif's risk approach is to achieve sound and sustainable low risk profile on consolidated basis, through the identification, measurement and monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank 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 Bank has given priority to create a risk aware culture in which all functions of the Bank 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 Bank, sound risk management practices are targeted in compliance with Basel II recommendations.

In accordance with the BankPozitif's market risk management strategy; the Bank 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 Bank 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 Bank, including that of all its subsidiary, 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 Bank.

## **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

### **Notes to the Consolidated Financial Statements**

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#### **27. Financial risk management (continued)**

##### **Strategy in using financial instruments (continued)**

The Bank 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 Bank. 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 Bank 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 Bank does not take prefer speculative positions on currency, interest rate and maturity that might create risk to the Bank 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 Bank 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 Bank applies a well-defined “credit allocation process” and afterwards monitoring of the portfolio is being executed using a number of precautionary actions by relevant functions.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)****Analysis of credit quality**

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

<b>31 December 2016</b>	<b>Loans and advances to customers</b>	<b>Loans and advances to banks</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
Neither past due nor impaired	1,138,481	44,965	65,734	459,935
Past due but not impaired	84,771	-	-	-
Individually impaired	76,153	-	-	-
Allowance for impairment				
- Individual impairment	(16,718)	-	-	-
- Collective impairment	(6,846)	-	-	-
	<b>1,275,841</b>	<b>44,965</b>	<b>65,734</b>	<b>459,935</b>
<b>31 December 2015</b>	<b>Loans and advances to customers</b>	<b>Loans and advances to banks</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
Neither past due nor impaired	1,175,481	17,386	69,658	748,695
Past due but not impaired	66,083	-	-	-
Individually impaired	61,511	-	-	-
Allowance for impairment				
- Individual impairment	(15,681)	-	-	-
- Collective impairment	(16,301)	-	-	-
	<b>1,271,093</b>	<b>17,386</b>	<b>69,658</b>	<b>748,695</b>

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

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

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

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

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

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#### **27. Financial risk management (continued)**

##### **Credit risk (continued)**

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

##### *Creating credit risk awareness throughout the Group*

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

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

##### *Having a reliable credit allocation function*

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

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

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

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

##### *Risk limits*

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

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

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

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

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

As at 31 December 2016, the share of the Group’s receivables from its top 20 credit customers in its total loan portfolio is 54% (2015 – 69%).

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

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### **27. Financial risk management (continued)**

#### **Credit risk (continued)**

##### *Measuring risk*

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

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

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

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

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

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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:

<b>2016</b>	<b>Cash loans</b>	<b>Non-cash loans</b>	<b>Total</b>
Electric production and supply	297,142	100,355	397,497
Other commercial services	186,785	24,109	210,894
Holding companies	191,893	2,689	194,582
Public works and civil engineering	76,090	58,839	134,929
Building contractor (general and special trade)	86,725	22,656	109,381
Transportation	89,616	10,605	100,221
Consumer loans	83,796	2,259	86,055
Food, beverage and tobacco industries	72,750	9,832	82,582
Other financial institutions	54,790	11,823	66,613
Trade	1,573	64,949	66,522
Metal and by-products	17,180	32,468	49,648
Personal other services	7,794	37,660	45,454
Commercial, mortgage, investment finance banks	-	28,163	28,163
Textile and clothing	18,179	30	18,209
Electrical and electronic equipment	-	12,953	12,953
Tourism and entertainment	-	12,900	12,900
Machinery and equipment	2,319	1,324	3,643
Agriculture and forestry	1,500	-	1,500
Others	-	26,321	26,321
<b>Total performing loans</b>	<b>1,188,132</b>	<b>459,935</b>	<b>1,648,067</b>
Loans in arrears	76,153	-	76,153
Interest accruals	35,120	-	35,120
Provision for possible loan losses	(23,564)	-	(23,564)
<b>Total loans</b>	<b>1,275,841</b>	<b>459,935</b>	<b>1,735,776</b>



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

As at 31 December 2016, total collateralisation coverage of cash and non-cash loans are 91% (2015 – 65%).

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

	<b>2016</b>	<b>2015</b>
<b>Cash loans (including financial lease receivables) under loan in arrears</b>		
Secured by mortgages	62,783	46,313
Secured by guarantee	-	732
Secured by assignment and cheques	459	-
Unsecured	12,911	14,466
<b>Total</b>	<b>76,153</b>	<b>61,511</b>
<b>Cash loans (including financial lease receivables) except loan in arrears</b>		
Secured by cash	8,946	1,108
Secured by mortgages	346,801	385,263
Secured by pledge	222,253	95,441
Secured by guarantee	235,645	111,754
Secured by assignment and cheques	308,813	118,426
Unsecured	100,794	529,572
<b>Total</b>	<b>1,223,252</b>	<b>1,241,564</b>
<b>Non-cash loans</b>		
Secured by cash	5,610	6,050
Secured by mortgages	22,543	42,521
Secured by pledge	-	8,499
Secured by guarantee	323,766	394,812
Secured by assignment and cheques	54,767	93,349
Unsecured	53,249	203,464
<b>Total</b>	<b>459,935</b>	<b>748,695</b>

## **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

### **Notes to the Consolidated Financial Statements**

#### **As at and for the year ended 31 December 2016**

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#### **27. Financial risk management (continued)**

##### **Liquidity risk**

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

In order to manage this risk, the Bank 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 Bank 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 Bank 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 Bank using only quasi cash assets against the liabilities of 1 month and 1 year periods. Since the Bank has funding centred asset creating structure, the Bank 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 Bank.

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 Bank into relevant maturity groupings based on the remaining period at reporting date to contractual maturity date.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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### 27. Financial risk management (continued)

#### Liquidity risk (continued)

The table below analyses residual contractual maturities of liabilities:

2016	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other money market deposits	17,892	17,892	-	17,892	-	-	-	-
Funds borrowed	675,358	709,796	-	42,920	375,754	77,474	112,555	101,093
Debt securities issued	580,487	619,880	-	-	63,276	15,527	541,077	-
Current account of loan customers <sup>(1)</sup>	35,429	36,162	-	29,527	5,496	-	1,139	-
	<b>1,309,166</b>	<b>1,383,730</b>	<b>-</b>	<b>90,339</b>	<b>444,526</b>	<b>93,001</b>	<b>654,771</b>	<b>101,093</b>

<sup>(1)</sup> Included in other liabilities.

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

<sup>(1)</sup> Included in other liabilities.

The table below analyses contractual maturities of derivative transactions:

2016	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
<b>Assets</b>							
Forward purchase contracts	2,672	329	-	-	-	-	3,001
Forward sale contracts	2,657	343	-	-	-	-	3,000
Currency swap purchases	137,245	16,884	7,497	1,339	337	-	163,302
Currency swap sales	137,833	15,717	5,194	927	259	-	159,930
Interest rate cap/floor purchase contracts	-	-	-	-	-	105,576	105,576
	<b>280,407</b>	<b>33,273</b>	<b>12,691</b>	<b>2,266</b>	<b>596</b>	<b>105,576</b>	<b>434,809</b>
<b>2015</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>							
Forward purchase contracts	127	53	-	-	-	-	180
Forward sale contracts	55	3,059	-	-	-	-	3,114
Currency swap purchases	175,790	1,428	-	-	-	-	177,218
Currency swap sales	51,385	56,442	26,472	39,632	7,577	-	181,508
Interest rate cap/floor purchase contracts	-	-	-	-	-	36,345	36,345
	<b>227,357</b>	<b>60,982</b>	<b>26,472</b>	<b>39,632</b>	<b>7,577</b>	<b>36,345</b>	<b>398,365</b>

## **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

### **Notes to the Consolidated Financial Statements**

#### **As at and for the year ended 31 December 2016**

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#### **27. Financial risk management (continued)**

##### **Market risk**

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

The interest rate and exchange rate risks of the financial positions taken by the Bank related to financial position and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to value at risk (VaR) is taken into consideration by the standard method. As at 31 December 2016, the potential loss of the securities portfolio was generated by historical simulation method as TL 86 (2015 – TL 55) for one day.

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

The Bank 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 Bank 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 Bank 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 Bank is subject to due to the exchange rate movements in the market. The Bank 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 Bank 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.

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

<b>2016</b>	<b>USD</b>	<b>Euro</b>	<b>CHF</b>	<b>JPY</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with central banks	72	-	-	-	-	72
Due from banks and financial institutions	33,699	855	256	16	26	34,852
Reserve deposits at central Banks	150,899	-	-	-	-	150,899
Loans and finance lease receivables <sup>(1)</sup>	590,470	330,866	2,977	589	66	924,968
Other assets	6,523	770	-	-	5,238	12,531
<b>Total assets</b>	<b>781,663</b>	<b>332,491</b>	<b>3,233</b>	<b>605</b>	<b>5,330</b>	<b>1,123,322</b>
<b>Liabilities</b>						
Funds borrowed	377,713	289,376	-	-	-	667,089
Debt securities issued	529,337	-	-	-	-	529,337
Other liabilities	22,839	11,590	7	12	2	34,450
<b>Total liabilities</b>	<b>929,889</b>	<b>300,966</b>	<b>7</b>	<b>12</b>	<b>2</b>	<b>1,230,876</b>
<b>Gross exposure</b>	<b>(148,226)</b>	<b>31,525</b>	<b>3,226</b>	<b>593</b>	<b>5,328</b>	<b>(107,554)</b>
<b>Off-balance sheet position</b>						
Net notional amount of derivatives	258,913	(31,500)	(3,211)	(600)	(86)	223,516
<b>Net exposure</b>	<b>110,687</b>	<b>25</b>	<b>15</b>	<b>(7)</b>	<b>5,242</b>	<b>115,962</b>
<b>2015</b>	<b>USD</b>	<b>Euro</b>	<b>CHF</b>	<b>JPY</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>						
Due from banks and financial institutions	9,948	1,316	373	37	97	11,771
Reserve deposits at central Banks	152,564	-	-	-	-	152,564
Loans and finance lease receivables <sup>(1)</sup>	624,525	301,213	5,772	1,589	114	933,213
Other assets	37,067	20,224	-	-	-	57,291
<b>Total assets</b>	<b>824,104</b>	<b>322,753</b>	<b>6,145</b>	<b>1,626</b>	<b>211</b>	<b>1,154,839</b>
<b>Liabilities</b>						
Funds borrowed	405,390	265,819	-	-	-	671,209
Debt securities issued	437,133	-	-	-	-	437,133
Other liabilities	17,872	23,598	19	-	2	41,491
<b>Total liabilities</b>	<b>860,395</b>	<b>289,417</b>	<b>19</b>	<b>-</b>	<b>2</b>	<b>1,149,833</b>
<b>Gross exposure</b>	<b>(36,291)</b>	<b>33,336</b>	<b>6,126</b>	<b>1,626</b>	<b>209</b>	<b>5,006</b>
<b>Off-balance sheet position</b>						
Net notional amount of derivatives	89,022	(47,998)	(5,245)	(1,351)	(194)	34,234
<b>Net exposure</b>	<b>52,731</b>	<b>(14,662)</b>	<b>881</b>	<b>275</b>	<b>15</b>	<b>39,240</b>

<sup>(1)</sup> Foreign currency net non-performing loans and finance lease receivables amounting to TL 14,977 are included at foreign currency position (31 December 2015: TL 18,599).

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Currency risk (continued)****Sensitivity analysis**

A 10% weakening of TL against the foreign currencies at 31 December 2016 and 2015 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	<b>2016</b>		<b>2015</b>	
	<b>Equity</b>	<b>Profit or loss</b>	<b>Equity</b>	<b>Profit or loss</b>
USD	11,069	11,069	5,273	5,273
EUR	3	3	(1,466)	(1,466)
Other currencies	525	525	117	117
	<b>11,597</b>	<b>11,597</b>	<b>3,924</b>	<b>3,924</b>

A 10% strengthening of the TL against the foreign currencies at 31 December 2016 and 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

**Cash flow and fair value interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Bank 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 Bank 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 Bank 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 Bank 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 Bank manages interest rate risk by the ALCO under the supervision of Board of Directors. The Bank 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 Bank utilises interest rate cap/floor agreements, interest rate swaps and setting limits on the positions, which can be taken by the Bank's credit and treasury divisions to hedge the interest rate sensitivity of the Bank.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statements

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(Currency - In thousands of Turkish Lira)

### 27. Financial risk management (continued)

#### Cash flow and fair value interest rate risk (continued)

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

2016	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
<b>Assets</b>											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	87	87
Due from banks and financial institutions	38,035	-	-	-	-	-	-	-	-	6,930	44,965
Interbank and other money market placements	25,065	-	-	-	-	-	-	-	-	-	25,065
Reserve deposits at central banks	117,446	-	-	-	-	-	-	-	-	35,197	152,643
Investment securities	6,489	469	1,358	1,403	301	1,458	7,780	12,037	15,995	-	47,290
Loaned securities	890	427	113	-	-	-	-	13,057	3,957	-	18,444
Loans and finance lease receivables	87,532	44,680	137,581	177,426	233,795	126,331	81,432	94,191	247,575	45,298	1,275,841
Trading assets	115	3,219	2,375	410	77	-	677	-	5,403	-	12,276
Other assets	2,818	-	-	-	28,000	-	-	-	-	79,750	110,568
<b>Total assets</b>	<b>278,390</b>	<b>48,795</b>	<b>141,427</b>	<b>179,239</b>	<b>262,173</b>	<b>127,789</b>	<b>89,889</b>	<b>119,285</b>	<b>272,930</b>	<b>167,262</b>	<b>1,687,179</b>
<b>Liabilities</b>											
Other money market deposits	17,892	-	-	-	-	-	-	-	-	-	17,892
Funds borrowed	29,933	373,318	50,616	34,264	33,497	20,300	20,300	20,300	92,830	-	675,358
Debt securities issued	-	59,258	2,270	-	518,959	-	-	-	-	-	580,487
Other liabilities	15,551	9,527	-	-	-	-	-	1,140	-	28,979	55,197
<b>Total liabilities</b>	<b>63,376</b>	<b>442,103</b>	<b>52,886</b>	<b>34,264</b>	<b>552,456</b>	<b>20,300</b>	<b>20,300</b>	<b>21,440</b>	<b>92,830</b>	<b>28,979</b>	<b>1,328,934</b>
<b>Financial position interest sensitivity gap</b>	<b>215,002</b>	<b>(393,308)</b>	<b>88,541</b>	<b>144,975</b>	<b>(290,283)</b>	<b>107,489</b>	<b>69,589</b>	<b>97,845</b>	<b>180,100</b>	<b>138,295</b>	<b>358,245</b>
Off-balance sheet interest sensitivity gap, net	(572)	1,153	-	2,715	77	-	-	-	105,576	-	108,949
<b>Total interest sensitivity gap</b>	<b>214,430</b>	<b>(392,155)</b>	<b>88,541</b>	<b>147,690</b>	<b>(290,206)</b>	<b>107,489</b>	<b>69,589</b>	<b>97,845</b>	<b>285,676</b>	<b>138,295</b>	<b>467,194</b>



# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statements

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### 27. Financial risk management (continued)

#### Cash flow and fair value interest rate risk (continued)

2015	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
<b>Assets</b>											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	130	130
Due from banks and financial institutions	9,034	-	-	-	-	-	-	-	-	8,352	17,386
Interbank and other money market placements	114,391	-	-	-	-	-	-	-	-	-	114,391
Reserve deposits at central banks	157,901	-	-	-	-	-	-	-	-	-	157,901
Investment securities	29,489	7,637	10,982	7,000	-	-	-	-	-	-	55,108
Loaned securities	-	9,676	4,874	-	-	-	-	-	-	-	14,550
Loans and finance lease receivables	177,834	129,753	101,993	163,400	218,023	155,898	76,899	48,853	168,910	29,530	1,271,093
Trading assets	1,588	1,030	2,361	2,400	1,916	-	-	-	753	-	10,048
Other assets	52,234	98	39	-	-	-	-	-	-	96,516	148,887
<b>Total assets</b>	<b>542,471</b>	<b>148,194</b>	<b>120,249</b>	<b>172,800</b>	<b>219,939</b>	<b>155,898</b>	<b>76,899</b>	<b>48,853</b>	<b>169,663</b>	<b>134,528</b>	<b>1,789,494</b>
<b>Liabilities</b>											
Other money market deposits	14,508	-	-	-	-	-	-	-	-	-	14,508
Funds borrowed	63,192	303,741	62,087	43,293	112,041	-	-	-	96,899	-	681,253
Debt securities issued	1,138	99,411	82,662	33,450	2,270	428,435	-	-	-	-	647,366
Other liabilities	31,029	24,293	8,278	27,161	-	-	-	-	897	9,481	101,139
<b>Total liabilities</b>	<b>109,867</b>	<b>427,445</b>	<b>153,027</b>	<b>103,904</b>	<b>114,311</b>	<b>428,435</b>	<b>-</b>	<b>-</b>	<b>97,796</b>	<b>9,481</b>	<b>1,444,266</b>
<b>Financial position interest sensitivity gap</b>	<b>432,604</b>	<b>(279,251)</b>	<b>(32,778)</b>	<b>68,896</b>	<b>105,628</b>	<b>(272,537)</b>	<b>76,899</b>	<b>48,853</b>	<b>71,867</b>	<b>125,047</b>	<b>345,228</b>
Off-balance sheet interest sensitivity gap, net	-	36,345	-	-	-	-	-	-	(36,345)	-	-
<b>Total interest sensitivity gap</b>	<b>432,604</b>	<b>(242,906)</b>	<b>(32,778)</b>	<b>68,896</b>	<b>105,628</b>	<b>(272,537)</b>	<b>76,899</b>	<b>48,853</b>	<b>35,522</b>	<b>125,047</b>	<b>345,228</b>

<sup>(1)</sup> Figures represent the foreign subsidiary's deposit balances.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)**

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

<b>2016 (%)</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>JPY</b>	<b>GBP</b>	<b>KZT</b>
Due from banks and financial institutions	9.21	0.32	-	-	-	-	-
Interbank and other money market placements	12.36	-	-	-	-	-	-
Marketable securities (Investment and trading)	6.18	5.00	-	-	-	-	-
Loans and finance lease receivables							
- Corporate loans	15.51	6.61	4.40	-	-	-	-
- Retail loans	17.66	8.97	8.07	6.79	5.82	10.13	-
Deposits from other banks	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-
Other money market deposits	6.95	-	-	-	-	-	-
Funds borrowed and debt securities issued	10.50	2.73	2.17	-	-	-	-
Current account of loan customers <sup>(1)</sup>	7.42	3.13	0.14	-	-	-	-
<b>2015 (%)</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>JPY</b>	<b>GBP</b>	<b>KZT</b>
Due from banks and financial institutions	15.32	0.35	-	-	-	-	-
Interbank and other money market placements	-	-	-	-	-	-	-
Marketable securities (Investment and trading)	11.87	-	-	-	-	-	-
Loans and finance lease receivables							
- Corporate loans	16.44	7.15	5.71	-	-	-	-
- Retail loans	17.18	8.98	8.28	7.30	6.19	11.28	-
Deposits from other banks	-	-	-	-	-	-	-
Customer deposits	-	-	-	-	-	-	-
Other money market deposits	7.40	-	-	-	-	-	-
Funds borrowed and debt securities issued	11.77	3.92	3.12	-	-	-	-
Current account of loan customers <sup>(1)</sup>	8.83	2.84	0.15	-	-	-	-

<sup>(1)</sup> Included in other liabilities.

The Bank's value at market risks as of 31 December 2016 and as of 31 December 2015 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	<b>2016</b>			<b>2015</b>		
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>
Interest rate risk	7,396	13,213	4,613	2,738	4,402	1,151
Counter party risk	4,114	11,200	1,600	398	579	244
Currency risk	5,242	15,200	1,100	8,746	12,214	869
<b>Total value-at-risk</b>	<b>16,752</b>	<b>39,613</b>	<b>7,313</b>	<b>11,882</b>	<b>17,195</b>	<b>2,264</b>

**Internal capital adequacy assessment process**

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)****Exposure to interest rate risk – non-trading portfolios**

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

<b>Change at portfolio value/Total equity (%)</b>	<b>2016</b>	<b>2015</b>
<b>Local TL interest rate</b>		
+500 bps	(3.69)	(5.06)
-400 bps	4.35	5.58
<b>Foreign currency interest rate</b>		
+200 bps EUR	1.58	0.70
-200 bps EUR	(0.22)	(0.38)
+200 bps USD	(1.84)	1.59
-200 bps USD	2.94	(0.22)

**Capital adequacy**

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

	<b>2016</b>	<b>2015</b>
Amount subject to credit risk (I)	1,753,698	1,686,775
Amount subject to market risk (II)	111,406	102,800
Amount subject to operational risk (III)	104,108	146,475
<b>Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)</b>	<b>1,969,212</b>	<b>1,936,050</b>
Capital for the purpose of calculating the capital adequacy ratio	334,486	331,129
<b>Capital adequacy ratio</b>	<b>17.91%</b>	<b>17.10%</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statements As at and for the year ended 31 December 2016

(Currency - In thousands of Turkish Lira)

### 28. Classification of financial assets and financial liabilities

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

31 December 2016	Note	Trading	Designated at fair value	Held- to-maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Cash and balances with central banks	10	-	-	-	87	-	-	87
Due from banks and financial institutions	10	-	-	-	44,965	-	-	44,965
Interbank and other money market placements	10	-	-	-	25,065	-	-	25,065
Reserve deposits at central banks	10	-	-	-	152,643	-	-	152,643
Trading assets	12	12,276	-	-	-	-	-	12,276
Investment securities	13	-	-	-	-	47,290	-	47,290
Loaned securities	13	-	-	-	-	18,444	-	18,444
Loans and finance lease receivables	14	-	-	-	1,275,841	-	-	1,275,841
<b>Total</b>		<b>12,276</b>	<b>-</b>	<b>-</b>	<b>1,498,601</b>	<b>65,734</b>	<b>-</b>	<b>1,576,611</b>
Deposits from other banks	19	-	-	-	-	-	-	-
Customer deposits	19	-	-	-	-	-	-	-
Other money market deposits	19	-	-	-	-	-	17,892	17,892
Trading liabilities	12	1,795	-	-	-	-	-	1,795
Funds borrowed	20	-	-	-	-	-	675,358	675,358
Debt securities issued	21	-	-	-	-	-	580,487	580,487
Current accounts of loan customers <sup>(1)</sup>	22	-	-	-	-	-	35,429	35,429
<b>Total</b>		<b>1,795</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,309,166</b>	<b>1,310,961</b>

<sup>(1)</sup> Included in other liabilities.

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

<sup>(1)</sup> Included in other liabilities.

## **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

### **Notes to the Consolidated Financial Statements**

#### **As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

## **29. Fair value of financial instruments**

### **Valuation of financial instruments**

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

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

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

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

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

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

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

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***29. Fair value of financial instruments (continued)****Valuation of assets measured at fair value (continued)**

This table below analyses of financial and non-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:

<b>2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	58,250	58,250
<i>Financial instruments</i>				
Trading assets	6,280	5,996	-	12,276
Investment and loaned securities <sup>(1)</sup>	65,734	-	-	65,734
	<b>72,014</b>	<b>5,996</b>	<b>58,250</b>	<b>136,260</b>

<i>Financial instruments</i>				
Trading liabilities	-	1,795	-	1,795
	<b>-</b>	<b>1,795</b>	<b>-</b>	<b>1,795</b>

<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	57,292	57,292
<i>Financial instruments</i>				
Trading assets	4,190	5,858	-	10,048
Investment and loaned securities <sup>(1)</sup>	69,658	-	-	69,658
	<b>73,848</b>	<b>5,858</b>	<b>57,292</b>	<b>136,998</b>

<i>Financial instruments</i>				
Trading liabilities	-	31,620	-	31,620
	<b>-</b>	<b>31,620</b>	<b>-</b>	<b>31,620</b>

<sup>(1)</sup> As at 31 December 2016, securities that are not publicly traded amounting to nil have been measured at cost and are excluded from the table (2015 – None).

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:

<b>Investment property</b>	<b>2016</b>	<b>2015</b>
Balance at 1 January	57,292	56,155
Total gains or losses	920	-
<i>in profit or loss</i>	-	-
<i>in other comprehensive income</i>	920	-
Purchases	38	1,137
	<b>58,250</b>	<b>57,292</b>

## **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

### **Notes to the Consolidated Financial Statements**

#### **As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

#### **29. Fair value of financial instruments *(continued)***

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

###### **Loans and finance lease receivables**

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

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

###### **Held-to-maturity investments**

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

###### **Other money market deposits, debt securities issued, funds borrowed and current accounts of loan customers**

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

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

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***30. Operating segments**

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

<b>2016</b>	<b>Asset management and treasury</b>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Foreign financial subsidiary</b>	<b>Non-financial services</b>	<b>Eliminations/ Adjustments</b>	<b>Total</b>
Interest income	11,230	101,280	13,611	-	508	-	<b>126,629</b>
Interest expense	(70,916)	(1,502)	-	-	-	-	<b>(72,418)</b>
Intersegment revenue	71,547	(68,719)	(2,828)	-	-	-	<b>-</b>
<b>Net interest income</b>	<b>11,861</b>	<b>31,059</b>	<b>10,783</b>	<b>-</b>	<b>508</b>	<b>-</b>	<b>54,211</b>
Net fee and commission income	(198)	6,081	(217)	-	-	-	<b>5,666</b>
Net trading income and foreign exchange gain, net	5,239	178	-	-	59	-	<b>5,476</b>
Other operating income	716	18,450	877	-	421	-	<b>20,464</b>
<b>Total operating income</b>	<b>17,618</b>	<b>55,768</b>	<b>11,443</b>	<b>-</b>	<b>988</b>	<b>-</b>	<b>85,817</b>
Net impairment loss on financial and non-financial assets	1,390	822	(5,542)	-	-	-	<b>(3,330)</b>
Total operating expenses	(8,049)	(24,101)	(22,846)	-	(1,245)	-	<b>(56,241)</b>
<b>Profit/(Loss) before income tax</b>	<b>10,959</b>	<b>32,489</b>	<b>(16,945)</b>	<b>-</b>	<b>(257)</b>	<b>-</b>	<b>26,246</b>
Income tax	(11,288)	-	-	-	(7)	-	<b>(11,295)</b>
<b>Net profit / (loss) for the year from continuing operations</b>	<b>(329)</b>	<b>32,489</b>	<b>(16,945)</b>	<b>-</b>	<b>(264)</b>	<b>-</b>	<b>14,951</b>
<b>Net profit / (loss) for the year from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net profit / (loss) for the year</b>	<b>(329)</b>	<b>32,489</b>	<b>(16,945)</b>	<b>-</b>	<b>(264)</b>	<b>-</b>	<b>14,951</b>
<b>Total assets</b>	<b>236,320</b>	<b>1,317,318</b>	<b>127,325</b>	<b>-</b>	<b>6,216</b>	<b>-</b>	<b>1,687,179</b>
<b>Total liabilities</b>	<b>1,224,092</b>	<b>100,766</b>	<b>3,402</b>	<b>-</b>	<b>674</b>	<b>-</b>	<b>1,328,934</b>



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2016***(Currency - In thousands of Turkish Lira)***30. Operating segments (continued)**

<b>2015</b>	<b>Asset management and treasury</b>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Foreign financial subsidiary</b>	<b>Non-financial services</b>	<b>Eliminations/ Adjustments</b>	<b>Total</b>
Interest income	30,571	102,719	19,469	-	331	-	153,090
Interest expense	(86,845)	(1,650)	-	-	-	-	(88,495)
Intersegment revenue	67,974	(65,094)	(2,880)	-	-	-	-
<b>Net interest income</b>	<b>11,700</b>	<b>35,975</b>	<b>16,589</b>	<b>-</b>	<b>331</b>	<b>-</b>	<b>64,595</b>
Net fee and commission income	(207)	7,827	(205)	-	-	-	7,415
Net trading income and foreign exchange gain, net	(31,510)	217	-	-	107	-	(31,186)
Other operating income	981	(6,504)	8,221	-	-	-	2,698
<b>Total operating income</b>	<b>(19,036)</b>	<b>37,515</b>	<b>24,605</b>	<b>-</b>	<b>438</b>	<b>-</b>	<b>43,522</b>
Net impairment loss on financial and non-financial assets	1,561	9,662	(16,767)	-	-	-	(5,544)
Total operating expenses	(27,908)	(20,408)	(20,289)	-	(163)	-	(68,768)
<b>Profit / (loss) before income tax</b>	<b>(45,383)</b>	<b>26,769</b>	<b>(12,451)</b>	<b>-</b>	<b>275</b>	<b>-</b>	<b>(30,790)</b>
Income tax	4,281	-	-	-	(58)	-	4,223
<b>Net profit / (loss) for the year from continuing operations</b>	<b>(41,102)</b>	<b>26,769</b>	<b>(12,451)</b>	<b>-</b>	<b>217</b>	<b>-</b>	<b>(26,567)</b>
<b>Net profit / (loss) for the year from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(95,518)</b>	<b>-</b>	<b>-</b>	<b>(95,518)</b>
<b>Net profit / (loss) for the year</b>	<b>(41,102)</b>	<b>26,769</b>	<b>(12,451)</b>	<b>(95,518)</b>	<b>217</b>	<b>-</b>	<b>(122,085)</b>
<b>Total assets</b>	<b>355,898</b>	<b>1,309,643</b>	<b>127,325</b>	<b>-</b>	<b>5,982</b>	<b>(9,354)</b>	<b>1,789,494</b>
<b>Total liabilities</b>	<b>1,360,566</b>	<b>100,766</b>	<b>3,402</b>	<b>-</b>	<b>236</b>	<b>(20,704)</b>	<b>1,444,266</b>

# **BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**

## **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2016**

*(Currency - In thousands of Turkish Lira)*

### **31. Discontinued operations**

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

The sale transaction has been approved by Kazakhstan authorities on 30 December 2015 and JSC BankPozitiv Kazakhstan shares amounting USD 26,266 (TL 75,246) have been transferred and registered officially to Eurasian Bank JSC.

According to the completion of this sale transaction, net loss effect of discontinued operations is TL 95,518 includes the net income of the subsidiary is TL 13,014 for year 2015 and sale loss amounting TL 108,532 has been recognised in year 2015.

Significant part of this sale loss results from decrease of the investment value JSC BankPozitiv Kazakhstan related with devaluation of Kazakhstan Tenge against USD and TL.

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

The JSC BankPozitiv Kazakhstan was previously classified as held-for-sale as at 30 September 2015. As at 31 December 2015 both current and comparative consolidated statement of profit or loss has been represented to show the discontinued operation separately from continuing operations.

### **32. Rating**

As at 31 December 2016, the Bank's ratings assigned by international rating agency, Fitch Ratings are as follows:

#### **Fitch Ratings, February 2016**

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

### **33. Subsequent and other events**

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

As at 28 January 2017, the Bank has sold 49.8 million Turkish Lira principal of its retail loan portfolio as part of its downsizing policy. The Bank does not plan to continue actively retail marketing activities. However, in order to keep the retail loan application and disbursement infrastructure systematics in operation, it is considered that a very small number of new disbursements will be made at certain intervals.