

**Bankpozitif Kredi ve Kalkınma
Bankası Anonim Şirketi**

**Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information
For the Six-Month Period Ended
30 June 2017**

28 July 2017

This report contains 2 pages of independent auditors' report on review of condensed consolidated interim financial information and 38 pages of condensed consolidated financial statements and notes to the condensed consolidated interim financial information.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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Independent auditors' report on review of interim financial information

To the Board of Directors of

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2017, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

Emphasis of Matter

We draw attention to Note 11 to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Bank by non-performing corporate customer the Bank. Our opinion is not qualified in respect of this matter.

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

Alper Güvenç, SMMM
Partner

28 July 2017
İstanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Financial Position****As at 30 June 2017***(Currency - In thousands of Turkish Lira)*

		Reviewed	Audited
		30 June	31 December
	<i>Note</i>	2017	2016
ASSETS			
Cash and balances with central banks		4	87
Due from banks and financial institutions		6,232	44,965
Interbank and other money market placements		62,286	25,065
Reserve deposits at central banks		73,795	152,643
Trading assets		8,287	12,276
Investment securities		73,144	47,290
Loaned securities		248	18,444
Loans and finance lease receivables	4	1,061,374	1,275,841
Property and equipment		3,165	2,665
Intangible assets	5	7,886	7,495
Deferred tax assets		4,429	5,760
Investment property	6	58,279	58,250
Other assets		35,431	36,398
Total assets		1,394,560	1,687,179
LIABILITIES			
Other money market deposits		246	17,892
Trading liabilities		2,750	1,795
Funds borrowed	7	317,370	675,358
Debt securities issued	8	653,473	580,487
Other liabilities		51,669	46,261
Provisions		5,771	7,141
Total liabilities		1,031,279	1,328,934
EQUITY			
Share capital and share premium	9	379,114	379,114
Legal reserves		16,168	16,168
Available-for-sale reserve, net of tax	9	4,235	1,096
Retained earnings		(36,236)	(38,133)
Total equity		363,281	358,245
Total equity and liabilities		1,394,560	1,687,179

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss
For the six-month period ended 30 June 2017***(Currency - In thousands of Turkish Lira)*

		Reviewed	Reviewed	Reviewed	Reviewed
	Note	1 January – 30 June 2017	1 April – 30 June 2017	1 January – 30 June 2016	1 April – 30 June 2016
Continuing Operations					
Interest income					
Interest income on loans and finance leases		47,510	22,083	57,152	28,076
Interest income on deposits with other banks and financial institutions		2,029	945	837	528
Interest income on investment securities		1,709	1,000	2,543	932
Interest income on interbank and other money market placements		1,563	856	2,976	784
Other interest income		1,093	864	3,326	1,095
Total interest income		53,904	25,748	66,834	31,415
Interest expense					
Interest expense on other money market deposits		(396)	(53)	(458)	(183)
Interest expense on funds borrowed		(19,254)	(9,970)	(11,947)	(6,570)
Interest expense on debt securities issued		(11,216)	(5,014)	(19,276)	(8,380)
Other interest expense		(1,839)	(427)	(6,020)	(2,788)
Total interest expense		(32,705)	(15,464)	(37,701)	(17,921)
Net interest income		21,199	10,284	29,133	13,494
Fees and commission income		3,312	1,187	3,487	1,639
Fees and commission expense		(1,398)	(31)	(377)	(172)
Net fee and commission income		1,914	1,156	3,110	1,467
Net trading income and foreign exchange gain, net		218	(313)	1,925	1,634
Other operating income	14	897	475	11,697	10,353
Total operating income		24,228	11,602	45,865	26,948
Net impairment loss on financial assets	4	2,595	637	(5,317)	(4,448)
Personnel expenses		(11,581)	(4,798)	(13,229)	(6,063)
Depreciation and amortisation		(1,441)	(634)	(1,846)	(908)
Administrative expenses		(9,315)	(4,809)	(9,603)	(5,167)
Taxes other than on income		(448)	(246)	(1,191)	(932)
Other expenses		(1,422)	(606)	(2,433)	(173)
Total operating expenses		(24,207)	(11,093)	(28,302)	(13,243)
Profit before income tax		2,616	1,146	12,246	9,257
Income tax		(546)	(429)	(4,516)	(930)
Profit from continuing operations		2,070	717	7,730	8,327
Profit for the period		2,070	717	7,730	8,327

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the six-month period ended 30 June 2017***(Currency - In thousands of Turkish Lira)*

	Reviewed	Reviewed
	1 January– 30 June 2017	1 January– 31 June 2016
Profit for the period	2,070	7,730
Other comprehensive income		
<i>Items that will never be reclassified to profit or loss</i>		
Remeasurement of employee termination benefits	(216)	(456)
Deferred tax	43	91
	(173)	(365)
<i>Items that are or may be reclassified to profit or loss</i>		
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	3,546	2,136
Net change in fair value of available-for-sale financial assets transferred to profit or loss	379	(364)
Income tax	(786)	(355)
	3,139	1,417
Other comprehensive income/(loss) for the period from continued operations, net of income tax	2,966	1,052
Total comprehensive loss for the period	5,036	8,782

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Changes in Equity
For the six-month period ended 30 June 2017***(Currency - In thousands of Turkish Lira)*

	<i>Note</i>	Share capital	Share premium	Adjustment to share capital	Legal reserves	Available-for-sale reserve, net of tax	Currency translation reserve	Accumulated losses	Total
At 1 January 2016		337,292	20,121	21,701	16,168	2,874	-	(52,928)	345,228
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	7,730	7,730
Other comprehensive income									
Foreign currency translation differences		-	-	-	-	-	-	-	-
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	(365)	(365)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	1,417	-	-	1,417
Total other comprehensive income		-	-	-	-	1,417	-	(365)	1,052
Total comprehensive income for the period		-	-	-	-	1,417	-	7,365	8,782
Contributions by and distributions to owners									
Dividends to equity holders		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Transfers		-	-	-	-	-	-	-	-
At 30 June 2016		337,292	20,121	21,701	16,168	4,291	-	(45,563)	354,010
At 1 January 2017	9	337,292	20,121	21,701	16,168	1,096	-	(38,133)	358,245
Total comprehensive income for the period									
Profit for the period		-	-	-	-	-	-	2,070	2,070
Other comprehensive income									
Foreign currency translation differences		-	-	-	-	-	-	-	-
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	(173)	(173)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	3,139	-	-	3,139
Total other comprehensive income		-	-	-	-	3,139	-	(173)	2,966
Total comprehensive income for the period		-	-	-	-	3,139	-	1,897	5,036
Contributions by and distributions to owners									
Dividends to equity holders		-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Transfers		-	-	-	-	-	-	-	-
At 30 June 2017	9	337,292	20,121	21,701	16,168	4,235	-	(36,236)	363,281

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Cash Flows****For the six-month period ended 30 June 2017***(Currency - In thousands of Turkish Lira)*

	Reviewed	Reviewed
	1 January –	1 January –
<i>Note</i>	30 June 2017	30 June 2016
Cash flows from operating activities		
Interest received	44,732	51,573
Interest paid	(29,599)	(40,875)
Fees and commissions received	3,591	2,500
Fees and commissions paid	(1,398)	(377)
Trading income	757	674
Recoveries from non-performing loans	9,210	709
Cash payments to employees and other parties	(19,890)	(20,078)
Cash received from/(paid to) other operating activities	(10,343)	457
Cash paid for other operating activities	(3,971)	(7,471)
Income taxes paid	-	(61)
	(6,911)	(12,949)
Change in banks and financial institutions	505	(25)
Change in trading assets	1,126	2,547
Change in reserve deposits at central banks	78,851	19,196
Change in loans and finance lease receivables	148,340	(17,487)
Change in other assets	11,755	39,491
Change in interbank and other money market deposits	(17,636)	(7,919)
Change in other liabilities	2,346	(8,851)
Net cash provided by / (used in) operating activities	218,376	14,003
Cash flows from investing activities		
Purchases of investment securities	(10,031)	(25,046)
Proceeds from sale and redemption of investment securities	7,710	18,534
Purchases of property and equipment	(1,078)	(162)
Proceeds from the sale of premises and equipment	1	81
Purchases of intangible assets	(1,195)	(412)
Net cash provided by / (used in) investing activities	(4,593)	(7,005)
Cash flows from financing activities		
Proceeds from funds borrowed	637,012	504,498
Repayment of funds borrowed	(927,692)	(512,405)
Proceeds from debt securities issued	124,483	51,381
Repayment of debt securities issued	(51,633)	(168,437)
Net cash provided by / (used in) financing activities	(217,830)	(124,963)
Effect of net foreign exchange difference on cash and cash equivalents	2,452	(10)
Net decrease in cash and cash equivalents	(1,595)	(117,975)
Cash and cash equivalents at 1 January	70,117	131,886
Cash and cash equivalents at 30 June	68,522	13,911

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 June 2017

(Currency - In thousands of Turkish Lira)

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BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 June 2017

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

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

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

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

As at 30 June 2017, 69.83% (31 December 2016 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2016 – 30.17%) of the shares belong to C Faktoring A.Ş.

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 June 2017

(Currency - In thousands of Turkish Lira)

1. Corporate information (continued)

Nature of activities of the Bank / Group

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

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

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

As at 30 June 2017, the Bank provides services through its head office. As at 30 June 2017, the number of employees for the Bank and its consolidated subsidiaries are 83 and 1, respectively (31 December 2016 – 127 and 2).

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

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 30 June 2017 and 31 December 2016 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			30 June 2017	31 December 2016
C Bilişim	Istanbul/Turkey	Software development and technology	100	100

2. Basis of preparation

The interim consolidated condensed financial statements as of 30 June 2017 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with annual consolidated financial statements of the Group for the year ended 31 December 2016.

In preparation of the interim condensed consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of June 2017, noted below.

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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 June 2017

(Currency - In thousands of Turkish Lira)

2. Basis of preparation (continued)

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments*, has been published by POA in January 2017, replaces the existing guidance in TAS 39 *Financial Instruments: Recognition and Measurement*. This version includes referrals in earlier versions of IFRS 9 and revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from TAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

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 changes to 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 assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

3. Use of judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at end for the year ended 31 December 2016.

Measurement of fair values

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

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***3. Use of judgements and estimates (continued)**

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 13 – fair value of financial and non-financial instruments.

4. Loans and finance lease receivables

30 June 2017	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	214,352	729,481	62,150	1,005,983
Consumer loans	6,464	-	1,423	7,887
Total loans and finance lease receivables	220,816	729,481	63,573	1,013,870
Loans and finance lease receivables in arrears	67,505	-	-	67,505
Less: Specific reserve for impairment	(16,322)	-	-	(16,322)
Less: Portfolio reserve for impairment	(3,679)	-	-	(3,679)
	268,320	729,481	63,573	1,061,374

31 December 2016	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	233,824	843,982	76,482	1,154,288
Consumer loans	64,460	-	4,504	68,964
Total loans and finance lease receivables	298,284	843,982	80,986	1,223,252
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)
	350,873	843,982	80,986	1,275,841

As at 30 June 2017, loans and finance lease receivables with floating rates are TL 158,338 (31 December 2016 – TL 267,113) and fixed interest rates are TL 855,532 (31 December 2016 – TL 956,139).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 June 2017**

(Currency - In thousands of Turkish Lira)

4. Loans and finance lease receivables (continued)

Movements in non-performing loans and finance lease receivables:

	30 June 2017	30 June 2016
Non-performing loans and finance lease receivables at 1 January	76,153	61,511
Additions to non-performing loans and finance lease receivables	1,917	15,016
Recoveries	(9,210)	(709)
Write-offs ⁽¹⁾	(1,355)	(6,908)
Non-performing loans and finance lease receivables at the end of period	67,505	68,910

⁽¹⁾ Write-offs include TL 617 (30 June 2016 - TL 774) of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans amounting to TL 1,355 (30 June 2016 - TL 6,908) to an asset management for TL 247 as at 30 June 2017 (30 June 2016 - TL 691).

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

	30 June 2017	30 June 2016
Reserve at the beginning of the year	23,564	31,982
Provision net of recoveries	(2,595)	5,317
- <i>Provision for loan and finance lease receivables impairment</i>	2,244	7,748
- <i>Recoveries</i>	(4,839)	(2,431)
Write-offs ⁽¹⁾	(968)	(4,145)
Reserve at the end of the period	20,001	33,154

⁽¹⁾ Write-offs include TL 617 (30 June 2016 - TL 774) of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans amounting to TL 1,355 (30 June 2016 - TL 6,908) to an asset management for TL 247 as at 30 June 2017 (30 June 2016 - TL 691).

5. Intangible assets

Intangible assets consist of purchased software and developed software.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 June 2017

(Currency - In thousands of Turkish Lira)

6. Investment property

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

Accordingly, the Hotel was valued by an independent appraiser. According to the report dated 3 August 2015 prepared by a real estate appraisal company, which is included in the list to provide valuation service by the Capital Markets Board of Turkey (“CMB”), the fair value of hotel is determined as TL 56,155 for shares of the land and building owned by the Group determined according to the discounted cash flow projections approach. Investment property comprises a commercial properties that are leased to third parties. Lease contains an initial non-cancellable period of 10 years, with annual increases in rents indexed to consumer prices. Rental income from investment property amounting to TL 194 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:

	1 January – 30 June 2017	1 January – 31 December 2016
Balance at 1 January	58,250	57,292
Additions	29	38
<i>Accounted in other income</i>		
Change in fair value	-	920
Total	58,279	58,250

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	30 June 2017		31 December 2016	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term⁽¹⁾				
Fixed interest	15,966	91,962	8,269	423,369
Floating interest	-	26,627	-	16,667
Long-term⁽¹⁾				
Fixed interest	-	178,406	-	196,106
Floating interest	-	4,409	-	30,947
Total	15,966	301,404	8,269	667,089

⁽¹⁾ Based on original maturities.

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

As at 30 June 2017 and 31 December 2016, funds borrowed are unsecured.

As at 30 June 2017 and 31 December 2016, the Group has not had any defaults of principal, interest or redemption amounts.

8. Debt securities issued

	30 June 2017		31 December 2016	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Debt securities issued at amortised cost	126,904	526,569	51,150	529,337
Total	126,904	526,569	51,150	529,337

9. Capital and reserves

	30 June 2017	31 December 2016
Number of common shares, TL 0.1 (in full TL), par value (Authorised and issued)	3.372.923.500	3.372.923.500

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9. Capital and reserves (continued)

Share capital and share premium

As at 30 June 2017 and 31 December 2016, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 June 2017		31 December 2016	
	Amount	%	Amount	%
Tarshish	235,515	69.83	235,515	69.83
C Faktoring A.Ş.	101,777	30.17	101,777	30.17
	337,292	100.00	337,292	100.00
Share premium	20,121		20,121	
Restatement effect	21,701		21,701	
Share capital and share premium	379,114		379,114	

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

Legal reserves

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

Other reserves

Available-for-sale reserve

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

As at 30 June 2017, available for sale reserve, net of tax are TL 4,235 (31 December 2016 – TL 1,096).

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The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (31 December 2016 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial information, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

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

	Shareholders		Directors and key management personnel		Others	
	2017	2016	2017	2016	2017	2016
	Loans and finance lease receivables					
At 1 January	-	-	27	-	-	-
At end of the period/year	-	-	19	27	-	-

As at 30 June 2017, no provisions have been recognised in respect of loans and finance lease receivables given to related parties (31 December 2016 – none).

	Shareholders		Directors and key management personnel		Others	
	2017	2016	2017	2016	2017	2016
	Funds borrowed					
At 1 January	282,408	218,514	-	-	7,073	2,920
At end of the period/year	-	282,408	-	-	7,137	7,073
Interest expense ⁽¹⁾	(1,218)	(2,699)	-	-	(397)	(35)

⁽¹⁾ Interest expense in the above tables for 2016 represents the balances as of 30 June 2016.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***10. Related parties (continued)**

Other balances with related parties:

Related party		Deposits	Other liabilities	Non-cash loans	Other interest expense
Shareholders	30 June 2017	-	3	28,088	-
	31 December 2016	-	3	28,185	-
Directors and key management personnel	30 June 2017		7	-	-
	31 December 2016	14	-	-	-
Others ⁽¹⁾	30 June 2017	-	-	-	-
	31 December 2016	-	10,955	18	-

⁽¹⁾ As of 31 December 2016, other liabilities are comprised of items with an amount of TRY 10,955.**Compensation of key management personnel of the Group**

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 3,356 (30 June 2016 – TL 3,114) comprising salaries and other benefits.

11. Commitments and contingencies

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

	30 June 2017	31 December 2016
Letters of guarantee	286,315	377,394
Letters of credit	38,570	55,655
Other guarantees	14,839	14,670
Commitments	12,514	12,216
Total non-cash loans	352,238	459,935

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11. Commitments and contingencies (continued)

The copy of Contract of Right to Repurchase by Debt Liquidation made between Gaziantep Çağlar and the Bank in land register was falsified by forgery of documents. With such forged document, it was irregularly made subject of execution proceeding with judgement at TRY 48,378 with the file of Gaziantep Execution Office no. 13 with merits no. 2016/94269. The Bank executes the three following legal transactions in connection with such fraud attempt.

1- The Bank filed a complaint to Enforcement Court against proceeding filed against the Bank because of the fact that the document basis of proceeding is not suitable for enforcement proceeding and the irregularity during proceeding filing transactions. Upon the complaint, the principal judge hearing the file made a decision of injunction and the trial was postponed to 27 October 2016. However, the provisional judge who heard the file during judiciary recess lifted the injunction without any justification and the proceeding started over. Despite the dispute filed to the court, no suspension of proceeding again decision was made. During the first trial held on 27 October 2016, the court decided revocation of the proceeding. The opposing party filed a dispute to appellate court; however the appellate court reviewing the subject matter rejected such demand. Whereupon the opposing party also appealed decision of the appellate court. The appellate petition of the opposing party was served to the Bank. After writing a response to the appellate demand, the Bank will wait for Supreme Court decision about the file. The response has been sent to the Supreme Court and our response continues to be reviewed at the Supreme Court. The Bank management expects that the appellate will be concluded in favor of the Bank.

2- Upon release of the injunction decision made by Civil Court of Enforcement as described at above article, a Negative Declaratory Action (demand for determination of not being debtor by the court) was filed under the file of 2016/964 by Gaziantep Commercial Court of First Instance no. 1 which is another court in order to stop ongoing proceeding again. During file opening, a letter of guarantee amounting to TRY 60,241 was submitted a cautionary judgment was caused to be taken on execution proceeding. The parties submitted declarations to the Court, evidence was provided. The court decided to postpone the hearing to 31 May 2017 for waiting for missing files and evaluating evidence and declarations. In the meantime, as set forth at article one, since the proceeding was revoked and need for taking a cautionary judgment on execution proceeding disappeared automatically, the part TRY 7,236 held by the Execution Office of the abovementioned letter of guarantee amounting to TRY 60,241 was returned. Decision will be made during the hearing to be held on 31 May 2017 about returning the letter amounting to TRY 7,236 held by the court. After the hearing held on 31 May 2017 the court decided to the judgement of dismissal without any further explanation. The reason for the judgement of dismissal was also not clearly stated in the justified decision sent by the court. It has been stated that the court made the judgement on the basis of supreme court decisions of two test cases which are irrelative with the current case. The Bank filed a dispute to the appellate court (1st degree appellate). The Bank's management opinion is that as the judgement of the dismissal has no legal basis, the appellate will be concluded in favor of the Bank.

3- The Bank filed a complaint to Gaziantep Chief Prosecutor's Office against those who attempted the fraud. The Prosecutor's Office made decision of non-prosecution about Erdoğan Süyür, filing a lawsuit against Volkan Savaş for misconduct, and opening an investigation about Hasan Akçakayalıoğlu and Menashe Carmon for slander and giving misstatement to public authorities. A dispute was filed by us to Criminal Court of Peace against the Prosecutor's Office decision; however the Court rejected the Bank's demand. The Bank applied to the Ministry of Justice by judgment non obstante veredicto for cancellation of Prosecutor's Office decision which is against procedure and the law and likewise the Court decision which rejected the Bank's dispute as biased. The Ministry of Justice expressed their opinion to reverse the unlawful judgement of the prosecution and the file has been sent to the Penalty Department no.15 of the Supreme Court.

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11. Commitments and contingencies (continued)

The file is being reviewed by the Penalty Department no.15 of the Supreme Court and the Bank management expects that the appellate will be concluded in favor of the Bank.

Elmadağ law office and the Bank legal department collaborate on prosecutor investigation related to the above-listed legal processed. The Bank legal department counselors and 2BC Law office collaborate on the side of civil lawsuits.

In addition to this, the Bank receive opinions and considerations from expert people both on the sides of prosecution and civil lawsuits. In this scope, the Bank+ received legal opinion from Ankara University Law School Crime and Criminal Judgment Head of Department of Law Prof. Dr. Muharrem Özen. Again, the consideration being jointly prepared in this field by Marmara University Academician Prof. Dr. Ahmet Gökçen and Gazi University Crime and Criminal Judgment Law Academician Prof. Dr. İlhan Üzülmez is about to be completed. Both considerations identified many juridical errors and illegal transactions at prosecutor's office investigation and criminal court of peace decision. Further, the private expert report obtained during prosecutor's office investigation was jointly reviewed by three specialists (1-İstanbul University Forensic Medicine Institute Academician Forensic Medicine and Document Reviewing Specialist Prof. Dr. M.Fatih Yavuz, 2- Turkish Police Department Graphology and Forgery Specialist Hakan Bolat, 3- Turkish Police Department Graphology and Forgery E. Specialist and İKÜ Vocational School of Justice Academician İsmail Özkan) and a consideration was submitted that the expert report is legally invalid and the scientific work inside the report is already erroneous. Legal consideration and support is obtained from Dokuz Eylül University Law School Head of Department of Law of Civil Procedure Execution and Bankruptcy Prof. Dr.Muhammet Özkes about subjects related to Execution Court and Negative Declaratory Action.

The Bank filed complaints to the Board of Judges and Prosecutors (HSK) about Prosecutors and Judges the Bank consider performed illegal transactions during the trial process. Upon our complaints, HSK gave permission of investigation, as a result of investigations carried out by inspectors, irregularities were determined and defense request was asked.

Further, the Ministry of Justice inspectors who inspected execution leg of the fraud attempt determined irregularities and completed their reports. The Bank requested dismissal from civil service and proceeding for the assistant manager who had started the execution proceeding with judgement and for the other 4 court personnel, disciplinary measures and proceedings have also been requested.

In addition to these, Directorate General of Land Registry and Cadastre inspection board inspected land register leg of the fraud attempt and made determinations against declarations submitted by suspects to the prosecutor's office. The most important finding here is that the forged document used in the execution proceeding with judgement was not officially delivered to the land registry during the sale of the hotel and it can not be detected who attached this forged document to the land registry file and how or when it was attached.

The Bank management expects that the lawsuits will be concluded in favor of the Bank on the basis of many facts and legal grounds that corroborate allegations of the Bank under the above-mentioned developments. As noted above, the Ministry of Justice's opinion to reverse the unlawful judgement for the sake of the law is the most important display on this issue.

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12. Financial risk management

Strategy in using financial instruments

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

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

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

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

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

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

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

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

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12. Financial risk management (continued)

Strategy in using financial instruments (continued)

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

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

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

Credit risk

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)**

30 June 2017	Loans and advances to customers	Loans and advances to banks	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	920,857	6,232	73,392	352,238
Past due but not impaired	93,013	-	-	-
Individually impaired	67,505	-	-	-
Allowance for impairment				
- Individual impairment	(16,322)	-	-	-
- Collective impairment	(3,679)	-	-	-
	1,061,374	6,232	73,392	352,238
31 December 2016	Loans and advances to customers	Loans and advances to banks	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	1,138,481	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)	-	-	-
	1,275,841	44,965	65,734	459,935

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 amount disclosed exclude assets measured at fair value through profit or loss.

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

Creating credit risk awareness throughout the Group

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

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

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12. Financial risk management (continued)

Credit risk (continued)

Having a reliable credit allocation function

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

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

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

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

Risk limits

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

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

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

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

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

As at 30 June 2017, the share of the Group's loan to its top 20 credit customers in its total loan portfolio is 53% (31 December 2016 – 54%).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Credit risk (continued)

Measuring risk

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

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

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

Both rating systems are being used in credit decisions, the first one giving the indications for 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk*

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

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

30 June 2017	Cash loans	Non-cash loans	Total
Electric production and supply	279,065	54,757	333,822
Other commercial services	187,521	2,821	190,342
Holding companies	129,729	14,466	144,195
Public works and civil engineering	70,137	47,533	117,670
Building contractor (general and special trade)	80,745	18,883	99,628
Other financial institutions	68,633	989	69,622
Food, beverage and tobacco industries	67,868	105	67,973
Personal other services	43,106	21,823	64,929
Commercial, mortgage, investment finance banks	4,751	40,426	45,177
Consumer loans	-	38,066	38,066
Trade	258	36,767	37,025
Metal and by-products	8,818	19,110	27,928
Transportation	17,537	-	17,537
Textile and clothing	-	13,486	13,486
Electrical and electronic equipment	-	12,982	12,982
Tourism and entertainment	11,609	30	11,639
Machinery and equipment	1,501	2,924	4,425
Agriculture and forestry	1,500	-	1,500
Others	-	27,070	27,070
Total performing loans	972,778	352,238	1,325,016
Loans in arrears	67,505	-	7,505
Interest accruals	41,092	-	41,092
Provision for possible loan losses	(20,001)	-	(20,001)
Total loans	1,061,374	352,238	1,413,612

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31 December 2016	Cash loans	Non-cash loans	Total
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
Total performing loans	1,188,132	459,935	1,648,067
Loans in arrears	76,153	-	76,153
Interest accruals	35,120	-	35,120
Provision for possible loan losses	(23,564)	-	(23,564)
Total loans	1,275,841	459,935	1,735,776

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

Total collateralisation coverage of cash and non-cash loans are 93% as at 30 June 2017 (31 December 2016 – 91%).

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

	30 June 2017	31 December 2016
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	55,929	62,783
Secured by guarantee	-	-
Secured by assignment and cheques	-	459
Unsecured	11,576	12,911
Total	67,505	76,153
Cash loans (including financial lease receivables) except loan in arrears		
Secured by cash	9,701	8,946
Secured by mortgages	308,107	346,801
Secured by pledge	131,342	222,253
Secured by guarantee	216,760	235,645
Secured by assignment and cheques	332,914	308,813
Unsecured	15,046	100,794
Total	1,013,870	1,223,252
Non-cash loans		
Secured by cash	5,609	5,610
Secured by mortgages	8,333	22,543
Secured by guarantee	210,415	323,766
Secured by assignment and cheques	54,712	54,767
Unsecured	73,169	53,249
Total	352,238	459,935

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Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 June 2017

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12. Financial risk management (continued)

Liquidity risk

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

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

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

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

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

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

30 June 2017	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	246	246	-	246	-	-	-	-
Funds borrowed	317,370	347,631	-	28,473	4,594	108,870	109,288	96,406
Debt securities issued	653,473	669,293	-	50,028	80,048	539,217	-	-
Current account of loan customers ⁽¹⁾	42,124	42,124	-	27,454	13,508	-	1,162	-
	1,013,213	1,059,294	-	106,201	98,150	648,087	110,450	96,406

⁽¹⁾ Included in other liabilities.

31 December 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 ⁽¹⁾	35,429	36,162	-	29,527	5,496	-	1,139	-
	1,309,166	1,383,730	-	90,339	444,526	93,001	654,771	101,093

⁽¹⁾ Included in other liabilities.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Liquidity risk (continued)

30 June 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	7,060	485	-	-	-	-	7,545
Forward sale contracts	7,117	504	-	-	-	-	7,621
Currency swap purchases	51,035	2,467	1,335	-	336	-	55,173
Currency swap sales	50,827	2,510	1,001	-	272	-	54,610
Interest rate cap/floor purchase contracts	-	-	-	-	-	105,211	105,211
	116,039	5,966	2,336	-	608	105,211	230,160

31 December 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
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
	280,407	33,273	12,691	2,266	596	105,576	434,809

Market risk

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

The interest rate and exchange rate risks of the financial positions taken by the Bank related to financial position and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to value at risk (VaR) is taken into consideration by the standard method. As at 30 June 2017, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 83 (31 December 2016 – TL 86) for one day.

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

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

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

Currency risk

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Currency risk (continued)

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

30 June 2017	USD	Euro	CHF	JPY	Others	Total
Assets						
Cash and balances with central banks	-	-	-	-	-	-
Due from banks and financial institutions	372	167	412	6	37	994
Trading assets	2,218	-	-	8	-	2,226
Reserve deposits at central Banks	65,818	-	-	-	-	65,818
Loans and finance lease receivables ⁽¹⁾	501,249	290,451	1,089	214	51	793,054
Other assets	531	13	-	-	5,204	5,748
Total assets	570,188	290,631	1,501	228	5,292	867,840
Liabilities						
Trading liabilities	2,717	23	6	4	-	2,750
Funds borrowed	48,993	252,411	-	-	-	301,404
Debt securities issued	526,569	-	-	-	-	526,569
Other liabilities	10,564	21,048	7	-	2	31,621
Total liabilities	588,843	273,482	13	4	2	862,344
Gross exposure	(18,655)	17,149	1,488	224	5,290	5,496
Off-balance sheet position						
Net notional amount of derivatives	19,196	(17,151)	(1,461)	(197)	(90)	297
Net exposure	541	(2)	27	27	5,200	5,793
31 December 2016						
	USD	Euro	CHF	JPY	Others	Total
Assets						
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 ⁽¹⁾	590,470	330,866	2,977	589	66	924,968
Other assets	6,523	770	-	-	5,238	12,531
Total assets	781,663	332,491	3,233	605	5,330	1,123,322
Liabilities						
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
Total liabilities	929,889	300,966	7	12	2	1,230,876
Gross exposure	(148,226)	31,525	3,226	593	5,328	(107,554)
Off-balance sheet position						
Net notional amount of derivatives	258,913	(31,500)	(3,211)	(600)	(86)	223,516
Net exposure	110,687	25	15	(7)	5,242	115,962

⁽¹⁾ Foreign currency net non-performing loans and finance lease receivables amounting to TL 8,960 are included at foreign currency position (31 December 2016: TL 14,977).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Currency risk (continued)

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 30 June 2017 and 30 June 2016 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	30 June 2017		30 June 2016	
	Equity	Profit or loss	Equity	Profit or loss
USD	54.10	54.10	11,068.70	11,068.70
EUR	(0.20)	(0.20)	2.50	2.50
Other currencies	525.40	525.40	525.00	525.00
Total	579.30	579.30	11,596.20	11,596.20

A 10% strengthening of the TL against the foreign currencies at 30 June 2017 and 30 June 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Cash flow and fair value interest rate risk

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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As of and for the period ended 30 June 2017

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

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

30 June 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non- interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	4	4
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	6,232	6,232
Interbank and other money market placements	62,286	-	-	-	-	-	-	-	-	-	62,286
Reserve deposits at central banks	42,160	-	-	-	-	-	-	-	-	31,635	73,795
Investment securities	2,980	2,106	4,554	301	6,885	7,952	4,399	29,978	13,989	-	73,144
Loan securities	248	-	-	-	-	-	-	-	-	-	248
Loans and finance lease receivables	89,650	74,727	134,460	136,774	150,787	69,623	104,592	38,223	223,503	39,035	1,061,374
Trading assets	698	1,860	712	-	63	-	-	1,198	3,756	-	8,287
Other assets	1,789	-	-	27,999	-	-	-	-	-	79,402	109,190
Total assets	199,811	78,693	139,726	165,074	157,735	77,575	108,991	69,399	241,248	156,308	1,394,560
Liabilities											
Other money market deposits	246	-	-	-	-	-	-	-	-	-	246
Funds borrowed	27,700	13,501	19,868	75,091	26,288	21,904	21,904	21,904	89,210	-	317,370
Debt securities issued	49,531	87,521	-	516,421	-	-	-	-	-	-	653,473
Other liabilities ⁽¹⁾	11,786	15,724	-	-	-	-	1,162	-	-	31,518	60,190
Total liabilities	89,263	116,746	19,868	591,512	26,288	21,904	23,066	21,904	89,210	31,518	1,031,279
Financial position interest sensitivity gap	110,548	(38,053)	119,858	(426,438)	131,447	55,671	85,925	47,495	152,038	124,790	363,281
Off-balance sheet interest sensitivity gap, net	513	(420)	-	334	66	-	-	-	105,213	-	105,706
Total interest sensitivity gap	111,061	(38,473)	119,858	(426,104)	131,513	55,671	85,925	47,495	257,251	124,790	468,987

⁽¹⁾ Other liabilities comprise trading liabilities, other liabilities and provisions.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

31 December 2016	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non- interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	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
Total assets	278,390	48,795	141,427	179,239	262,173	127,789	89,889	119,285	272,930	167,262	1,687,179
Liabilities											
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 ⁽¹⁾	15,551	9,527	-	-	-	-	-	1,140	-	28,979	55,197
Total liabilities	63,376	442,103	52,886	34,264	552,456	20,300	20,300	21,440	92,830	28,979	1,328,934
Financial position interest sensitivity gap	215,014	(393,308)	88,541	144,975	(290,283)	107,489	69,589	97,845	180,100	138,283	358,245
Off-balance sheet interest sensitivity gap, net	(572)	1,153	-	2,715	77	-	-	-	105,576	-	108,949
Total interest sensitivity gap	214,442	(392,155)	88,541	147,690	(290,206)	107,489	69,589	97,845	285,676	138,283	467,194

⁽¹⁾ Other liabilities comprise trading liabilities, other liabilities and provisions.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

As at 30 June 2017 and 31 December 2016, the effective interest rate applied on balance sheet items summarised as follows:

30 June 2017 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	11.19	0.56	-	-	-	-
Interbank and other money market placements	12.13	-	-	-	-	-
Marketable securities (Investment and trading)	5.33	5.00	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	17.94	7.32	4.61	-	-	-
- Retail loans	17.46	10.08	9.59	7.85	6.32	11.37
Other money market deposits	9.07	-	-	-	-	-
Funds borrowed and debt securities issued	12.25	3.05	2.44	-	-	-
Current account of loan customers ⁽¹⁾	8.89	5.85	0.99	-	-	-
31 December 2016 (%)	TL	USD	EUR	CHF	JPY	GBP
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
Other money market deposits	6.95	-	-	-	-	-
Funds borrowed and debt securities issued	10.50	2.73	2.17	-	-	-
Current account of loan customers ⁽¹⁾	7.42	3.13	0.14	-	-	-

⁽¹⁾Included in other liabilities.

Internal capital adequacy assessment process

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)****Exposure to interest rate risk – non-trading portfolios**

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

Change at portfolio value/Total equity (%)	30 June 2017	31 December 2016
Local TL interest rate		
+500 bps	(4.55)	(3.69)
-400 bps	5.45	4.35
Foreign currency interest rate		
+200 bps EUR	0.96	1.58
-200 bps EUR	(0.03)	(0.22)
+200 bps USD	(2.63)	(1.84)
-200 bps USD	2.06	2.94

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The regulatory capital and the capital adequacy ratio declared by the Group as 30 June 2017 and 31 December 2016 is as follows:

	30 June 2017	31 December 2016
Amount subject to credit risk (I)	1,270,952	1,753,698
Amount subject to market risk (II)	93,906	111,406
Amount subject to operational risk (III)	101,181	104,108
Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)	1,466,039	1,969,212
Capital for the purpose of calculating the capital adequacy ratio	343,446	334,486
Capital adequacy ratio	24.89%	17.92%

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***13. Fair value of financial and non-financial instruments****Valuation of assets measured at fair value**

This table below analyses 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. The amounts are based on the values recognised in the statement of financial position.

30 June 2017	Level 1	Level 2	Level 3	Total
<i>Non-financial instruments</i>				
Investment property	-	-	58,279	58,279
<i>Financial instruments</i>				
Trading assets	5,507	2,780	-	8,287
Investment and loaned securities ⁽¹⁾	73,392	-	-	73,392
	78,899	2,780	58,279	139,958
<i>Financial instruments</i>				
Trading liabilities	-	2,750	-	2,750
	-	2,750	-	2,750
31 December 2016	Level 1	Level 2	Level 3	Total
<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 ⁽¹⁾	65,734	-	-	65,734
	72,014	5,996	58,250	136,260
<i>Financial instruments</i>				
Trading liabilities	-	1,795	-	1,795
	-	1,795	-	1,795

⁽¹⁾ As at 30 June 2017, securities that are not publicly traded amounting to nil have been measured at cost and are excluded from the table (2016 – None).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

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14. Operating segments

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

30 June 2017	Asset management and treasury	Corporate banking	Retail banking	Non-financial services	Total
Interest income	6,875	45,928	862	239	53,904
Interest expense	(32,148)	(557)	-	-	(32,705)
Internal transfer rate income/(expense)	36,830	(37,393)	563	-	-
Net interest income	11,557	7,978	1,425	239	21,199
Net fee and commission income / (expense)	(435)	2,462	(113)	-	1,914
Net trading income and foreign exchange gain, net	261	(49)	-	6	218
Other operating income	487	(2,225)	2,310	325	897
Total operating income	11,870	8,166	3,622	570	24,228
Net impairment loss on financial and non-financial assets	2,952	1,416	(1,773)	-	2,595
Total operating expenses	(10,351)	(8,543)	(4,720)	(593)	(24,207)
Profit / (loss) before income tax	4,471	1,039	(2,871)	(23)	2,616
Income tax	(700)	-	-	154	(546)
Net profit/(loss) for the period	3,771	1,039	(2,871)	131	2,070
Total assets	257,408	1,114,254	16,726	6,172	1,394,560
Total liabilities	962,505	67,433	1,099	242	1,031,279

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 June 2017***(Currency - In thousands of Turkish Lira)***14. Operating segments (continued)**

30 June 2016	Asset management and treasury	Corporate banking	Retail banking	Non-financial services	Total
Interest income	11,514	47,722	7,323	275	66,834
Interest expense	(36,999)	(702)	-	-	(37,701)
Intersegment revenue	43,303	(37,735)	(5,568)	-	-
Net interest income	17,818	9,285	1,755	275	29,133
Net fee and commission income	(231)	3,435	(94)	-	3,110
Net trading income and foreign exchange gain, net	1,823	112	-	(10)	1,925
Other operating income	-	11,613	12	72	11,697
Total operating income	19,410	24,445	1,673	337	45,865
Net impairment loss on financial and non-financial assets and on consolidation goodwill	-	(3,027)	(2,290)	-	(5,317)
Total operating expenses	(5,463)	(11,993)	(10,361)	(485)	(28,302)
Income from capital allocation	(8,432)	4,601	3,831	-	-
Profit / (loss) before income tax	5,515	14,026	(7,147)	(148)	12,246
Income tax	(4,577)	-	-	61	(4,516)
Net profit/(loss) for the period from continuing operations	938	14,026	(7,147)	(87)	7,730
Total assets⁽¹⁾	236,320	1,317,318	127,325	6,216	1,687,179
Total liabilities⁽¹⁾	1,224,092	100,766	3,402	674	1,328,934

(1) Total assets and liabilities balance are as of 31 December 2016.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 June 2017

(Currency - In thousands of Turkish Lira)

15. Rating

As at 30 June 2017, the Bank's ratings assigned by international rating agency, Fitch Ratings is as follows:

Fitch Ratings, February 2017

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)

16. Subsequent and other events

None.