

**Bankpozitif Kredi ve Kalkınma  
Bankası Anonim Şirketi**

**Independent Auditors' Report on Review of  
Condensed Consolidated Interim  
Financial Information  
As of and for the Six-Month Period Ended  
30 June 2019**

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

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Independent auditors' report on review of condensed consolidated interim financial information

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

*Introduction*

We have reviewed the accompanying 30 June 2019 condensed consolidated interim financial information of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi ("the Bank"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2019;
- the condensed consolidated statement of profit or loss for the three-month and six-month periods ended 30 June 2019;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2019;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2019;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2019; and
- notes to the interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with 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 30 June 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

*Emphasis of Matter*

We draw attention to Note 10 to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Bank by a non-performing corporate customer of the Bank. Our opinion is not qualified in respect of this matter.

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

Orhan Akova  
Partner

2 August 2019  
İstanbul, Turkey

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Condensed Consolidated Interim Statement of Financial Position****As at 30 June 2019***(Currency - In thousands of Turkish Lira)*

		<b>Reviewed</b>	<b>Audited</b>
	<i>Note</i>	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>ASSETS</b>			
Cash and balances with central banks		7	2,602
Due from banks and financial institutions		1,711	2,181
Interbank and other money market placements		16,032	-
Reserve deposits at central banks		73,237	72,466
Trading assets		14,018	13,092
Investment securities		54,554	87,517
Loaned securities		31,351	593
Loans and finance lease receivables	3	733,698	722,976
Tangible assets		10,083	2,417
Intangible assets		5,836	6,239
Deferred tax assets	4	2,588	2,164
Investment property	5	46,368	46,279
Other assets		9,147	12,815
<b>Total assets</b>		<b>998,630</b>	<b>971,341</b>
<b>LIABILITIES</b>			
Other money market deposits		31,347	590
Trading liabilities		4,684	6,775
Funds borrowed	6	596,608	613,380
Other liabilities	7	39,391	28,604
Provisions		18,030	11,640
<b>Total liabilities</b>		<b>690,060</b>	<b>660,989</b>
<b>EQUITY</b>			
Share capital and share premium	8	379,114	379,114
Legal reserves		16,168	16,168
Fair value reserve of debt instruments at fair value through other comprehensive income (FVOCI), net of tax	8	7,330	9,521
Accumulated losses		(94,042)	(94,451)
<b>Total equity</b>		<b>308,570</b>	<b>310,352</b>
<b>Total equity and liabilities</b>		<b>998,630</b>	<b>971,341</b>

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 three month and six-month periods ended 30 June 2019***(Currency - In thousands of Turkish Lira)*

		Reviewed	Reviewed	Reviewed	Reviewed
	Note	1 January– 30 June 2019	1 April– 30 June 2019	1 January– 30 June 2018	1 April– 30 June 2018
<b>Continuing operations</b>					
<b>Interest income</b>					
Interest income on loans and finance leases		37,124	19,417	35,537	18,819
Interest income on deposits with other banks and financial institutions		1,300	539	2,061	1,196
Interest income on investment securities		4,945	2,621	2,810	1,409
Interest income on interbank and other money market placements		293	284	3,771	391
Other interest income		10,289	5,932	12,097	7,770
<b>Total interest income</b>		<b>53,951</b>	<b>28,793</b>	<b>56,276</b>	<b>29,585</b>
<b>Interest expense</b>					
Interest expense on other money market deposits		(1,723)	(1,071)	(595)	(292)
Interest expense on funds borrowed		(14,976)	(7,066)	(12,568)	(5,774)
Interest expense on debt securities issued		-	-	(13,904)	(7,391)
Other interest expense		(4,925)	(2,617)	(4,183)	(1,360)
<b>Total interest expense</b>		<b>(21,624)</b>	<b>(10,754)</b>	<b>(31,250)</b>	<b>(14,817)</b>
<b>Net interest income</b>		<b>32,327</b>	<b>18,039</b>	<b>25,026</b>	<b>14,768</b>
Fees and commission income		2,878	1,691	5,032	3,179
Fees and commission expense		(170)	(111)	(298)	(140)
<b>Net fee and commission income</b>		<b>2,708</b>	<b>1,580</b>	<b>4,734</b>	<b>3,039</b>
Net trading income and foreign exchange gain, net		323	(61)	2,773	1,081
Other operating income		596	309	441	347
<b>Total operating income</b>		<b>35,954</b>	<b>19,867</b>	<b>32,974</b>	<b>19,235</b>
<b>Net impairment reversal/(loss) on financial assets</b>	3	<b>(9,970)</b>	<b>(8,252)</b>	<b>(2,888)</b>	<b>(5,907)</b>
Personnel expenses		(11,684)	(5,405)	(11,925)	(4,938)
Depreciation and amortisation		(1,805)	(922)	(1,150)	(563)
Administrative expenses		(9,899)	(5,405)	(10,065)	(6,168)
Taxes other than on income		(431)	(176)	(165)	(294)
Other expenses		(1,103)	(435)	(3,395)	(823)
<b>Total operating expenses</b>		<b>(24,922)</b>	<b>(12,343)</b>	<b>(26,700)</b>	<b>(12,786)</b>
<b>Profit/(loss) before income tax</b>		<b>1,062</b>	<b>(728)</b>	<b>3,386</b>	<b>542</b>
Income tax		(166)	177	(441)	193
<b>Profit/(loss) for the period</b>		<b>896</b>	<b>(551)</b>	<b>2,945</b>	<b>735</b>

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 three month and six-month periods ended 30 June 2019***(Currency - In thousands of Turkish Lira)*

	<b>Reviewed</b>	<b>Reviewed</b>	<b>Reviewed</b>	<b>Reviewed</b>
	<b>1 January–</b>	<b>1 April–</b>	<b>1 January–</b>	<b>1 April–</b>
	<b>30 June 2019</b>	<b>30 June 2019</b>	<b>30 June 2018</b>	<b>30 June 2018</b>
<b>Profit for the period</b>	<b>896</b>	<b>(551)</b>	<b>2,945</b>	<b>735</b>
<b>Other comprehensive income</b>				
<i>Items that will never be reclassified to profit or loss</i>				
Remeasurement of employee termination benefits	(624)	(209)	(880)	(480)
Related tax	137	46	174	65
	<b>(487)</b>	<b>(163)</b>	<b>(706)</b>	<b>(415)</b>
<i>Items that are or may be reclassified to profit or loss</i>				
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI)	(4,422)	(1,879)	94	(329)
Net amount reclassified to the income statement on sale of debt instruments at FVOCI	1,656	1,064	117	62
Related tax	575	175	(69)	51
	<b>(2,191)</b>	<b>(640)</b>	<b>142</b>	<b>(216)</b>
<b>Other comprehensive income for the period, net of income tax</b>	<b>(2,678)</b>	<b>(803)</b>	<b>(564)</b>	<b>(631)</b>
<b>Total comprehensive income for the period</b>	<b>(1,782)</b>	<b>(1,354)</b>	<b>2,381</b>	<b>104</b>

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 2019

(Currency - In thousands of Turkish Lira)

	<i>Note</i>	Share capital	Share premium	Adjustment to share capital	Legal reserves	Fair value reserve of debt instruments at FVOCI, net of tax	Accumulated losses	Total
<b>At 1 January 2018</b>	7	337,292	20,121	21,701	16,168	4,918	(33,616)	366,584
Changes on initial application of IFRS 9		-	-	-	-	-	(21,177)	(21,177)
<b>Restated balance at 1 January 2018</b>		337,292	20,121	21,701	16,168	4,918	(54,793)	345,407
<b>Total comprehensive income for the period</b>								
Profit for the period		-	-	-	-	-	2,945	2,945
<b>Other comprehensive income</b>								
Remeasurements of defined benefit liability, net of tax		-	-	-	-	-	(706)	(706)
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI), net of tax		-	-	-	-	142	-	142
<b>Total other comprehensive income</b>		-	-	-	-	142	(706)	(564)
<b>Total comprehensive income for the period</b>		-	-	-	-	142	2,239	2,381
<b>At 30 June 2018</b>	7	337,292	20,121	21,701	16,168	5,060	(52,554)	347,788
<b>At 1 January 2019</b>	7	337,292	20,121	21,701	16,168	9,521	(94,451)	310,352
<b>Total comprehensive income for the period</b>								
Profit for the period		-	-	-	-	-	896	896
<b>Other comprehensive income</b>								
Remeasurements of defined benefit liability, net of tax		-	-	-	-	-	(487)	(487)
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI), net of tax		-	-	-	-	(2,191)	-	(2,191)
<b>Total other comprehensive income</b>		-	-	-	-	(2,191)	(487)	(2,678)
<b>Total comprehensive income for the period</b>		-	-	-	-	(2,191)	409	(1,782)
<b>At 30 June 2019</b>	7	337,292	20,121	21,701	16,168	7,330	(94,042)	308,570

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 2019***(Currency - In thousands of Turkish Lira)*

		<b>Reviewed</b>	<b>Reviewed</b>
		<b>1 January –</b>	<b>1 January –</b>
	<i>Note</i>	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Cash flows from operating activities</b>			
Interest received		47,841	87,247
Interest paid		(21,506)	(49,118)
Fees and commissions received		3,071	4,672
Fees and commissions paid		(170)	(298)
Trading income		323	1,613
Recoveries from non-performing loans	4	1,409	10,827
Cash payments to employees and other parties		(10,719)	1,091
Cash received from other operating activities		596	441
Cash paid to other operating activities		(13,023)	(27,028)
		<b>7,822</b>	<b>29,447</b>
Change in banks and financial institutions		-	-
Change in trading assets		404	860
Change in reserve deposits at central banks		(903)	(34,142)
Change in loans and finance lease receivables		(23,510)	31,028
Change in other assets		5,619	16,514
Change in interbank and other money market deposits		30,662	(17,265)
Change in other liabilities		(2,652)	(597)
<b>Net cash from operating activities</b>		<b>17,442</b>	<b>25,845</b>
<b>Cash flows from investing activities</b>			
Purchases of investment securities		(7,104)	(6,651)
Proceeds from sale and redemption of investment securities		11,598	15,889
Purchases of tangible assets		-	(689)
Proceeds from the sale of premises and equipment		-	7
Purchases of intangible assets		-	(9)
<b>Net cash provided by in investing activities</b>		<b>4,494</b>	<b>8,547</b>
<b>Cash flows from financing activities</b>			
Proceeds from funds borrowed	6	974,750	743,097
Repayment of funds borrowed	6	(990,884)	(546,731)
Proceeds from debt securities issued		-	169,852
Repayment of debt securities issued		-	(627,124)
Payments due to financial lease liabilities		(1,438)	-
<b>Net cash used in financing activities</b>		<b>(17,572)</b>	<b>(260,906)</b>
Effect of net foreign exchange difference on cash and cash equivalents		8,571	4,892
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>12,935</b>	<b>(221,622)</b>
Cash and cash equivalents at 1 January		4,783	245,394
<b>Cash and cash equivalents at 30 June</b>		<b>17,718</b>	<b>23,772</b>

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 six-month period ended 30 June 2019**

*(Currency - In thousands of Turkish Lira)*

### **Notes to the condensed consolidated interim financial information**

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

## **Notes to the Condensed Consolidated Interim Financial Information As of and for the six-month period ended 30 June 2019**

*(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 2019, 69.83% (31 December 2018 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2018 – 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 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 six-month period ended 30 June 2019

(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 2019, the Bank provides services through its head office. As at 30 June 2019, the number of employees for the Bank and its consolidated subsidiaries are 61 and 2, respectively (31 December 2018 – 63 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 2019 and 31 December 2018 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			30 June 2019	31 December 2018
C Bilişim	Istanbul/Turkey	Software development and technology	100	100

### 2. Basis of preparation

#### 2.1 Statement of compliance

The condensed consolidated interim 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.

These condensed consolidated interim financial statements as of 30 June 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of IFRS financial statements. However selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2018. The condensed consolidated interim financial statements should be read in conjunction with annual consolidated financial statements of the Group for the year ended 31 December 2018.

In preparation of the condensed consolidated interim financial statements of the Group, the same accounting policies except than IFRS 16 and methods of computation have been followed as compared to the most recent annual financial statements as of 31 December 2018. Other new IFRS/IAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Group.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

### 2. Basis of preparation (continued)

#### 2.2 Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following assets and liabilities are measured at fair value;

- trading assets including derivative financial instruments
- financial assets at the fair value through profit or loss
- financial assets measured at fair value through other comprehensive income
- investment properties
- investment securities

#### 2.3 Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as disclosed in the financial statements as at and for the year ended 31 December 2018.

The Group has started to apply IFRS 16 Leases standard (“IFRS 16”) published by in the accompanying consolidated financial statements starting from 1 January 2019.

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same.

This standard is applied with modified retrospective approach recognizing the cumulative effect of initially applying the standard at the date of initial application. In this context, comparative information is not restated.

A lease liability and a right-of-use asset is recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17. That lease liability is measured at the present value of the remaining lease payments, discounted using the Bank’s alternative borrowing rate at the date of initial application. Besides, that right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

#### *Transition disclosures of IFRS 16*

	Not	31 December 2018	IFRS 16 Impact	1 January 2019
<b>Tangible Assets (Net)</b>	(1)	2,417	6,847	9,264
<b>Obligations Under Lease Liabilities (Net) (*)</b>	(2)	-	6,847	6,847

(1) For leases classified as operating leases in accordance with IAS 17, TL 6,847 thousand lease liabilities and right-of-use assets amount has been reflected to financial statements as of 1 January 2019 in accordance with IFRS 16.

(2) As of 1 January 2019, the weighted average of the alternative funding interest rates applied to TL and EURO lease liabilities are 22.5% and 3%, respectively.

(\*) Obligations under lease liabilities are presented in other liabilities in financial statements.

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

## **Notes to the Condensed Consolidated Interim Financial Information As of and for the six-month period ended 30 June 2019**

*(Currency - In thousands of Turkish Lira)*

### **2.3 Changes in accounting policies***(continued)*

#### **Financial lease**

Tangible assets acquired through financial leasing are recognized as assets and the related liabilities as lease payables in assets and liabilities, respectively. In the determination of the related asset and liability amounts, the lower of the fair value of the leased assets and the present value of leasing payments is considered. Financial costs on leasing agreements are distributed throughout the lease periods at fixed interest rates. Interest expenses and foreign exchange losses related with financial leasing are recognized in income statement.

In cases where leased assets are impaired or the expected future benefits of the assets are less than their book values, the book values of such leased assets are reduced to their net realizable values. Depreciation for assets acquired through financial leases is calculated consistently with the same principle as for the tangible assets.

Leases, in which the majority of risks and returns of the related asset belong to the lessor, are classified as operational lease. In operating leases, the rent payments are recognized as expense in income statement in equal amounts over the lease term.

#### **Leases**

Based on IFRS 16, at the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the alternative borrowing interest rate.

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

The lease liability is remeasured by discounting the revised lease payments using a revised discount rate, if either there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. However, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments or if there is a change in the amounts expected to be payable under a residual value guarantee, an unchanged discount rate is used.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the alternative borrowing interest rate at the effective date of the modification. The carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. A corresponding adjustment to the right-of-use asset is made for all other lease modifications.

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

## **Notes to the Condensed Consolidated Interim Financial Information**

**As of and for the six-month period ended 30 June 2019**

*(Currency - In thousands of Turkish Lira)*

### **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**

##### *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 30 June 2019, the Group does not have any net current tax liabilities (31 December 2018– None).

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 30 June 2019, the Group carries a net deferred tax assets amounting to TL 2,588 (31 December 2018 – TL 2,164 deferred tax assets).

Deferred tax assets have not been recognised in respect of the remaining tax losses amounting to TL 80,690, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom (31 December 2018 – TL 79,694).

##### *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 30 June 2019 is TL 3,912 (31 December 2018 – TL 3,392).

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.

##### *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.

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

## **Notes to the Condensed Consolidated Interim Financial Information As of and for the six-month period ended 30 June 2019**

*(Currency - In thousands of Turkish Lira)*

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

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 12 – fair value of financial and non-financial instruments.



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***3. Loans and finance lease receivables**

<b>30 June 2019</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Foreign currency indexed</b>	<b>Total</b>
Corporate loans and finance lease receivables	<b>15,411</b>	<b>637,868</b>	-	<b>653,279</b>
Stage 1	15,411	381,112	-	396,523
Stage 2	-	256,756	-	256,756
Consumer loans	<b>375</b>	-	<b>405</b>	<b>780</b>
Stage 1	320	-	405	725
Stage 2	55	-	-	55
<b>Total loans and finance lease receivables</b>	<b>15,786</b>	<b>637,868</b>	<b>405</b>	<b>654,059</b>
Loans and finance lease receivables in arrears	157,615	-	-	157,615
Less: 12 month ECL (stage 1)	(4,377)	-	-	(4,377)
Less: Lifetime ECL significant increase in credit risk (stage 2)	(371)	-	-	(371)
Less: Lifetime ECL impaired credits (stage 3)	(73,228)	-	-	(73,228)
	<b>95,425</b>	<b>637,868</b>	<b>405</b>	<b>733,698</b>

<b>31 December 2018</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Foreign currency indexed</b>	<b>Total</b>
Corporate loans and finance lease receivables	<b>36,597</b>	<b>633,486</b>	-	<b>670,083</b>
Stage 1	15,297	475,454	-	490,751
Stage 2	21,300	158,032	-	179,332
Consumer loans	<b>698</b>	-	<b>435</b>	<b>1,133</b>
Stage 1	603	-	435	1,038
Stage 2	95	-	-	95
<b>Total loans and finance lease receivables</b>	<b>37,295</b>	<b>633,486</b>	<b>435</b>	<b>671,216</b>
Loans and finance lease receivables in arrears	126,563	-	-	126,563
Less: 12 month ECL (stage 1)	(3,151)	-	-	(3,151)
Less: Lifetime ECL significant increase in credit risk (stage 2)	(9,492)	-	-	(9,492)
Less: Lifetime ECL impaired credits (stage 3)	(62,160)	-	-	(62,160)
	<b>89,055</b>	<b>633,486</b>	<b>435</b>	<b>722,976</b>

As at 30 June 2019, loans and finance lease receivables with floating rates are TL 93,060 (31 December 2018 – TL 172,882) and fixed interest rates are TL 560,999 (31 December 2018 – TL 498,334).

Movements in non-performing loans and finance lease receivables (stage 3):

	<b>30 June 2019</b>	<b>31 December 2018</b>
Non-performing loans and finance lease receivables at 1 January	126,563	58,217
Additions to non-performing loans and finance lease receivables	32,461	82,494
Recoveries	(1,409)	(12,376)
Write-offs	-	(1,772)
<b>Non-performing loans and finance lease receivables at the end of period</b>	<b>157,615</b>	<b>126,563</b>

## BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

### Notes to the Condensed Consolidated Interim Financial Information

As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

#### 3. Loans and finance lease receivables (continued)

Movements in the expected credit losses for loan and finance lease receivables:

	30 June 2019	31 December 2018
Reserve at the beginning of the year	74,803	17,275
IFRS 9 transition impact	-	17,046
Provision net of recoveries	9,970	38,797
- Credit loss expense on financial assets	10,465	49,016
- Recoveries	(495)	(10,219)
Write-offs	(6,797)	1,685
<b>Reserve at the end of the period</b>	<b>77,976</b>	<b>74,803</b>

#### 4. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%.

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 25<sup>th</sup> day of the fourth month following the year-end reporting date and taxes must be paid in one instalment by the end of the fourth month. In Turkey, the tax legislation does not permit a parent company and its 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 30 June 2019, TL 2,096 of deferred tax assets are recognised for TL 10,482 of tax losses of the Group (31 December 2018: TL 2,096 of deferred tax assets and TL 10,482 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 80,690 (31 December 2018: TL 79,694).

Deferred tax assets reflected on the balance sheets for 30 June 2019 and 31 December 2018 are:

	30 June 2019	31 December 2018
Deferred tax assets	2,588	2,164

#### 5. Investment property

Investment Property of the Group was valued by an independent appraiser. According to the report dated 27 February 2019 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 46,368 for shares of the land and building owned by the Group determined according to the discounted cash flow projections approach.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

### 5. Investment property (continued)

The fair values of the Group's investment property are categorized 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 2019	1 January – 31 December 2018
Balance at 1 January	46,279	58,279
Additions	89	-
Change in fair value	-	(12,000)
<b>Total</b>	<b>46,368</b>	<b>46,279</b>

### 6. Funds borrowed

	30 June 2019		31 December 2018	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
<b>Short-term<sup>(1)</sup></b>				
Fixed interest	701	89,274	1,197	62,175
Floating interest	-	202,301	-	264,920
<b>Long-term<sup>(1)</sup></b>				
Fixed interest	-	304,332	-	285,088
Floating interest	-	-	-	-
<b>Total</b>	<b>701</b>	<b>595,907</b>	<b>1,197</b>	<b>612,183</b>

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

Floating rate borrowings have interest rate repricing periods of 1 month.

As at 30 June 2019 and 31 December 2018, funds borrowed are unsecured.

As at 30 June 2019 and 31 December 2018, the Group has not had any defaults of principal, interest or redemption amounts.

#### Reconciliation of movement of funds borrowed to cash flows from financing activities:

	31 December 2018	Cash items	Foreign currency conversion adjustments	Other non- cash items	30 June 2019
Funds borrowed	613,380	(40,313)	24,179	(638)	596,608
<b>Total</b>	<b>613,380</b>	<b>(40,313)</b>	<b>24,179</b>	<b>(638)</b>	<b>596,608</b>

	31 December 2017	Cash items	Foreign currency conversion adjustments	Other non- cash items	31 December 2018
Funds borrowed	339,028	202,327	70,942	1,083	613,380
<b>Total</b>	<b>339,028</b>	<b>202,327</b>	<b>70,942</b>	<b>1,083</b>	<b>613,380</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***7. Other liabilities**

	<b>30 June 2019</b>	<b>31 December 2018</b>
Current accounts of loan customers	28,933	21,377
Lease payables	6,969	-
Collateral received for derivative transactions	100	4,140
Unearned commission income	1,948	1,768
Taxes and funds payables	796	381
Insurance payables	89	83
Others	556	855
<b>Total</b>	<b>39,391</b>	<b>28,604</b>

**8. Capital and reserves**

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Number of common shares</b> , TL 0.1 (in full TL), par value (Authorized and issued)	3.372.923.500	3.372.923.500

**Share capital and share premium**

As at 30 June 2019 and 31 December 2018, the composition of shareholders and their respective percentage of ownership are summarized as follows:

	<b>30 June 2019</b>		<b>31 December 2018</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
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	
Adjustment to share capital	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.

**Legal reserves**

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

### 8. Capital and reserves (continued)

#### Other reserves

#### Financial assets measured at fair value through other comprehensive income (FVOCI) reserve

The financial assets measured at fair value through other comprehensive income (FVOCI) reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income (FVOCI) investment securities until the investment is derecognised or impaired.

As at 30 June 2019, financial assets measured at fair value through other comprehensive income (FVOCI) reserve is TL 7,330 (31 December 2018: TL 9,521).

### 9. 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 (31 December 2018 – 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. As of 30 June 2019, there are no loans and finance lease receivables to related parties (31 December 2018 – none).

As at 30 June 2019, no provisions have been recognised in respect of loans and finance lease receivables given to related parties (31 December 2018 – none).

	Shareholders		Directors and key management personnel		Others	
	2019	2018	2019	2018	2019	2018
	<b>Funds borrowed</b>					
At 1 January	264,920	-	-	-	5,401	7,593
At end of the period/year	202,301	264,920	-	-	11,673	5,401
Interest expense <sup>(1)</sup>	(5,999)	(15,940)	-	-	(298)	(505)

<sup>(1)</sup> Interest expense in the above tables for 2019 represents the balances as of 30 June 2019.

Other balances with related parties:

Related party		Deposits	Other liabilities	Non-cash loans	Other interest expense
Shareholders	30 June 2019	-	3	3,591	-
	31 December 2018	-	3	3,284	-
Directors and key management personnel	30 June 2019	-	-	-	-
	31 December 2018	-	27	-	-
Others	30 June 2019	-	553	6	-
	31 December 2018	-	566	6	-

#### Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 4,172 (30 June 2018 – TL 3,516) comprising salaries and other benefits.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

### 10. 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 2019	31 December 2018
Letters of guarantee	184,853	220,436
Commitments	-	3,042
Other guarantees	17,808	17,877
Loss allowances (amounts arising from ECL)	(9,660)	(2,958)
<b>Total non-cash loans (net)</b>	<b>193,001</b>	<b>238,397</b>

The copy of Debt Liquidation and Right of Repurchase Agreement made between Gaziantep Çağlar and the Bank and kept in the land register was falsified by forgery of documents. With such forged document, it was irregularly made the subject of the execution proceeding with judgment for TL 48,378 in the Gaziantep 13th Execution Office's file with merits number of 2016/94269. The Bank currently executes the following three legal transactions in connection with such fraud attempt:

1. The Bank filed a complaint to the Enforcement Court against the proceeding filed against the Bank claiming that the underlying document for the proceeding was not appropriate for the said enforcement proceeding and the irregularities occurred during proceeding filing transactions. Upon the complaint, the premier judge hearing the case ruled for an interlocutory injunction and postponed the trial to 27 October 2016. However, the provisional judge who heard the file during the judiciary recess period revoked the interlocutory injunction without any justification and the proceeding restarted. Despite the objection submitted to the court in this regard, no decision was made to suspend the proceeding. During the first trial held on 27 October 2016, the court decided to cancel the Execution Proceeding. The opposing party appealed to the Divisional Court; however, the Divisional Court reviewed the matter and rejected the opposing party's request. Whereupon the opposing party further appealed the decision of the Divisional Court to the Supreme Court. The Civil Department No. 12 of the Supreme Court ratified the Divisional Court's decision on 13 November 2018. As a result, the execution proceeding with judgment initiated irregularly was definitively canceled.
2. Upon the release of the injunction decision made by the Civil Court of Enforcement, as explained in the article above, a Negative Declaratory Action (a request to the court for a determination of not being a debtor) was further filed before the Gaziantep 1st Commercial Court of First Instance, another court, under the file number of 2016/964 in order to stop the ongoing proceeding. When the case was filed, a letter of guarantee in the amount of TL 60,241 was submitted, hence a cautionary judgment was established on the said execution proceeding. The parties submitted their declarations as well as their evidence to the Court. The court decided to postpone the hearing to 31 May 2017 to wait for the missing files and evaluate the evidence and declarations. In the meantime, as set forth in the article one above, since the proceeding was revoked and need for taking a cautionary judgment on execution proceeding disappeared automatically, TL 53,005 portion of the above-mentioned letter of guarantee amounting to TL 60,241 has been received back. The court decided during the hearing held on 31 May 2017 to return the guarantee letter amounting to TL 7,236 held by itself. At the hearing dated 31 May 2017, the court decided to dismiss the case without any further explanation. The reason for the judgment of such dismissal was not clearly stated in the court's justified decision either. It stated that the court had made its decision based on two previous Supreme Court decisions, which were indicated to be examples but irrelative with the Bank's current case. The Bank appealed to the Divisional Court (1st degree appellate) on 18 July 2017. The opposing party submitted its reply petitions for the Bank's appeal and right after, the Bank sent its respond declarations that were included in the case file.

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

### **Notes to the Condensed Consolidated Interim Financial Information As of and for the six-month period ended 30 June 2019**

(Currency - In thousands of Turkish Lira)

#### **10. Commitments and contingencies (continued)**

##### *Explanation on Lawsuit (continued)*

The Divisional Court decided to return the case file to the local court in order for it to be returned to itself upon the completion of the incomplete items declared by the Bank. Incomplete items were completed and the case file was sent by the Local Court to the Divisional Court. On 24 May 2018, the Divisional Court decided to accept the Bank's appeal request without reviewing the merits of the case on the grounds that none of the evidence indicated in the case file had been gathered and ruled to revoke the Local Court's decision and sent the case file back to the Local Court for further review. The Bank appealed the Divisional Court's ruling which was rejected by the Divisional Court. This time, the Bank appealed such rejection decision before the Supreme Court on 6 July 2018. The Supreme Court's decision is expected. The Supreme Court ruled on rejecting the Bank's appeal objections and uphold the Divisional Court's decision. The litigation shall be pursued on the Gaziantep 1<sup>st</sup> Commercial Court of First Instance's case file numbered 2018/720.

The case file sent back to the Local Court by the Divisional Court was given the case file number of 2018/720 E. In the hearing held on 27 June 2018, the Court decided to revoke the decision made for not paying the amounts that had previously been deposited with the execution office due to the execution proceedings initiated against the Bank to the defendant and ruled to return TL 7,236 (security amount) previously deposited with the execution office to the Bank when the interim decision was finalized. Such deposit was received back during the hearing held on 31 October 2018 and the court decided a warrant to be written to the Gaziantep 5<sup>th</sup> Aggravated Felony Court and inquire whether it has made a decision on the case file numbered 2018/172 bending before itself and, if so, whether such decision has become final. The next hearing was held on 24 April 2019 and a decision was made to send a warrant to the Gaziantep 5<sup>th</sup> aggravated Felony Court to inquire whether it had made and finalized its decision with regards to the case numbered 2018/172 pending before itself; and the hearing was postponed to 23 October 2019.

3. The Bank filed a complaint to Gaziantep Chief Prosecutor's Office against those who attempted the fraud. The Prosecutor's Office made a decision of non-prosecution about Gaziantep Çağlar, to file a lawsuit against the assistant manager to the bailiff for professional misconduct, and to open an investigation against the two board members of the Bank on the grounds for slander and giving misstatement to public authorities. The Bank filed a complaint to the 3<sup>rd</sup> Criminal Court of Peace regarding the Prosecutor's Office's decision; however, the Court rejected the Bank's request. The Bank then applied to the Ministry of Justice in the benefit of administration of the justice for the cancellation of the Prosecutor's Office decision which is contrary to the procedure and the law as well as the Court's biased decision rejecting the Bank's objection. The Ministry of Justice expressed its opinion to reverse the unlawful judgment of the prosecution and the file was sent to the Penal Department No. 15 of the Supreme Court. The Penal Department No. 15 of the Supreme Court reversed the decision rejecting the Bank's objection and returned the case file to the 3<sup>rd</sup> Criminal Court of Peace. The Criminal Court of Peace decided to send the case file to the Gaziantep Chief Public Prosecutor's Office in order for it to prepare a bill of indictment.

Upon an investigation it conducted, the Gaziantep Chief Public Prosecutor's Office prepared a bill of indictment against the accuseds on the grounds of an attempt to aggravated fraud and forgery on an official document, and a public prosecution against the accuseds was filed before the Gaziantep 5<sup>th</sup> Aggravated Felony Court under the case file number of 2018/172. The case files filed against the land registry, court and execution office officials were combined with the case file numbered 2018/172 pending before the Gaziantep 5<sup>th</sup> Aggravated Felony Court. In the hearing held on 6 June 2018, testimonies of some of the witnesses were taken; however, the hearing was re-held on 13 July 2018 due to the fact that the hearing footage had been erased from the NJIS (National Judiciary Informatics System) and the same testimonies were retaken. At the hearing held on 30 October 2018, the court took the testimonies of some of the accuseds and decided to take the testimonies of the remaining accuseds during the next hearing and wait for the replies to various warrants previously sent to various institutions to be received.

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

### **Notes to the Condensed Consolidated Interim Financial Information As of and for the six-month period ended 30 June 2019**

*(Currency - In thousands of Turkish Lira)*

#### **10. Commitments and contingencies (continued)**

##### *Explanation on Lawsuit (continued)*

During the hearing held on 7 February 2019, the testimonies of the remaining accuseds included in the combined case file were taken and the court decided to postpone the hearing to be held on 27 February 2019 to take the testimonies of the still remaining accuseds and receive the replies to the warrants that have not yet been replied to. At the hearings held on 27 February 2019, 22 March 2019 and 19 April 2019, decisions were made to order the incomplete items in the case files to be completed, hear the witnesses and allow additional time for the accuseds to present their supplemental defenses, and the hearing was postponed to 2 May 2019. At the hearing held on 2 May 2019, a decision was made to refer the case file to the Chief Public Prosecutor in order for him to give an opinion since the case file had been completed; and the hearing was postponed to 29.05.2019. At the hearings held on 29 May 2019, 24 June 2019 and 10 July 2019, the incomplete procedural items in the case file were completed and a decision was taken to postpone the hearing to 11 July 2019 in order to announce the decision. At the hearing held on 11 July 2019, it was eventually decided to sentence the accused persons to various imprisonment and monetary fines.

The related short decision was written and the justified decision is being expected. The Bank has appealed the decision at the Divisional Court level and shall submit its detailed appeal petition to the Court upon the receipt of the justified decision by the Bank.

Upon an investigation it conducted, the Gaziantep Chief Public Prosecutor's Office prepared a bill of indictment against the suspects on the grounds of an attempt to aggravated fraud and forgery on an official document. The litigation regarding the accuseds started before the Gaziantep 5<sup>th</sup> Aggravated Felony Court and the litigation process is on-going.

An independent law office and the Bank's legal department collaborate on prosecutor investigation related to the above-listed legal processes. The Legal Department Counsels and an independent law office collaborate on the side of civil lawsuits.

In addition to this, the Bank receives opinions and considerations from experts both on the sides of prosecution and civil lawsuits. Within this scope, the Bank received two separate legal opinions from different experts. Both considerations identified many juridical errors and illegal transactions in the prosecutor's office investigation and the criminal court of peace decision. Further, the private expert report obtained during prosecutor's office's investigation was reviewed by three experts jointly and an opinion was issued stating that the expert report was legally invalid and the scientific work included in the report was also already erroneous. Legal opinions and support are obtained from a different expert about matters of the Execution Court case and Negative Declaratory Action.

The Bank filed complaints to the Board of Judges and Prosecutors (HSK) against the Prosecutors and Judges whom the Bank considers had performed illegal transactions during the judicial process. Upon the Bank's complaints, HSK gave its permission for the related investigation; as a result of such investigation carried out by the inspectors, irregularities were determined and the defense request was asked.

Further, the Ministry of Justice inspectors who inspected the execution proceedings leg of the fraud attempt determined irregularities and completed their reports. The Bank requested the assistant manager who had started the execution proceeding with judgment be dismissed from the civil service, and the other 4 court personnel be inflicted certain disciplinary measures and proceedings be initiated against them.



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

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#### **10. Commitments and contingencies (continued)**

##### *Explanation on Lawsuit (continued)*

In addition to the above, the Directorate of Land Registry and Cadastre inspection board inspected the land registry leg of the fraud attempt and made determinations contrary to the declarations given by suspects to the prosecutor's office. The most important finding here is that the forged document used in the execution proceeding with judgment had not officially been submitted to the land registry during the sale of the hotel and it could not be detected who had inserted this forged document to the land registry file and how or when it had been inserted.

The Gaziantep Chief Public Prosecutor's Office wrote a letter addressed to the Banking Regulation and Supervision Agency indicating its suspicion that the two board members of the Bank had committed crimes of slander and given misstatements to public authorities. In its reply letter, the Banking Regulation and Supervision Agency stated that it, as the institution, had conducted all the necessary investigations with regard the issue in question and not reached any conclusions as to the existence of any criminal element in this regard.

Upon the Bank's complaint, the premier Public Prosecutor's Office filed a criminal lawsuit against the suspect the assistant manager to the bailiff, before the Gaziantep 15th Criminal Court of First Instance's case file numbered 2017/121 on the grounds of "Professional Misconduct". The related litigation is ongoing and the court decided on the Bank's participation in the case as an intervener due to the possibility of the Bank's incurring damages due to the crime committed, and postponed the hearing to be held on 27 April 2018. The court decided to combine the case file with the Gaziantep 5th Aggravated Felony Court's case file.

Based on the report prepared by the Inspection Board of the Ministry of Justice, the Gaziantep Chief Public Prosecutor's Office prepared a bill of indictment with a document number of 2017/32294 and requested that the suspects be sentenced on the grounds of Professional Misconduct. The case file is still pending before the Gaziantep 12th Criminal Court of First Instance with a case file number of 2017/640.

The court reached a conclusion that the official receiver, about whom the investigation in the investigation file numbered 2017/74224 being conducted by the Gaziantep Chief Public Prosecutors' Office is still ongoing, might have had committed the crime of professional misconduct, and decided to prosecute the suspect within the scope of this case file as well due to his connection with the transactions included in this case file. Testimony of accused the assistant manager to the bailiff was taken by the court. The case files numbered 2018/83 E., 2017/640 E. and 2017/121 E. filed against the land registry, court and execution office officials and pending before the Gaziantep 6th Criminal Court of First Instance, the Gaziantep 12th Criminal Court of First Instance and the Gaziantep 15th Criminal Court of First Instance respectively were combined with the 2018/172 E. filed against the related persons who had attempted the fraud in question and pending before the Gaziantep 5th Aggravated Felony Court.

Although the approval required for the investigation of the land registry personnel in the public prosecutors' office's investigation conducted due to the irregularities occurred during the stages of the Land Registry Directorate's sending the documents that had not been requested by the execution office and the sending and receiving of such documents was requested from the Governorship of Gaziantep, the Governorship decided not to grant such an investigation approval. Upon such decision, the Bank applied to the 1st Administrative Court of the Gaziantep Regional Administrative Court. The related court determined the Bank's rejections as just and decided to initiate an investigation about the land registry personnel. Upon such decision, the Public Prosecutors' Office conducted the necessary investigations and prepared a bill of indictment in order for a prosecution case to be filed against the assistant manager to the bailiff, the person who had helped with the said transactions, the official receiver, the land registry personnel on the grounds of Professional Misconduct and Joint Professional Misconduct. Such bill of indictment was accepted by the Gaziantep 6th Criminal Court of First Instance in its case file numbered 2018/83. Testimonies of accuseds were taken in the hearing of the Gaziantep 6th Criminal Court of First Instance's case file numbered 2018/83. The Court decided to consolidate the case file with the Gaziantep 5th Aggravated Felony Court's case file.

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

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#### **10. Commitments and contingencies (continued)**

##### *Explanation on Lawsuit (continued)*

The case file numbered 2018/83 filed against the related persons who had attempted the fraud in question and pending before the Gaziantep 6th Criminal Court of First Instance was combined with the case file numbered 201/172 E. pending before the Gaziantep 5th Aggravated Felony Court.

The Bank's complaint made regarding Gaziantep Çağlar accuseds and its two lawyers who had made the transaction in question before the Şehitkamil Land Registry Directorate by using the Bank's name and produced forged documents is still being investigated by the Gaziantep Chief Public Prosecutors' Office with an investigation file number of 2017/95484.

The investigation about the 4 land registry officials about whom the Bank had filed a complaint with the Gaziantep Chief Public Prosecutors' Office's investigation file numbered 2016/49291, but no actions have yet to be taken was also included within the scope of this investigation file and it is being investigated under the Gaziantep Chief Public Prosecutors' Office's investigation file numbered 2016/70494.

The investigation approval about these persons was requested from the Gaziantep Governorship and the Gaziantep Governorship added 3 more officials to these 4 land registry officials and approved a total of 7 officials to be investigated. Such complaint made against these 7 officials is still being investigated under the Gaziantep Chief Public Prosecutors' Office's investigation file numbered 2017/93117.

The Bank's management expects, in light of the developments explained above, the case to be finalized in favor of the Bank based on a number of facts and legal grounds supporting the Bank's claims.

As of 30 June 2019 the Bank provided TL 1,117 provision for the on-going litigations filed against the Bank (as of 31 December 2018 TL 1,438).

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

## **Notes to the Condensed Consolidated Interim Financial Information As of and for the six-month period ended 30 June 2019**

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### **11. 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 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.

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

## **Notes to the Condensed Consolidated Interim Financial Information**

**As of and for the six-month period ended 30 June 2019**

*(Currency - In thousands of Turkish Lira)*

### **11. 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 and Basel III 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 keep 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 extent, 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 six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***11. Financial risk management (continued)****Credit risk (continued)**

<b>30 June 2019</b>	<b>Loans and finance lease receivables</b>	<b>Due from banks and financial institutions</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
<i>Carrying amount</i>				
Stage 1	397,248	1,821	85,973	202,661
Stage 2	256,811	-	-	-
Stage 3	157,615	-	-	-
<i>Allowance for impairment</i>				
- 12 month ECL (stage 1)	(4,377)	(110)	(68)	(2,232)
- Lifetime ECL significant increase in credit risk (stage 2)	(371)	-	-	(7,428)
- Lifetime ECL impaired credits (stage 3)	(73,228)	-	-	-
	<b>733,698</b>	<b>1,711</b>	<b>85,905</b>	<b>193,001</b>
<b>31 December 2018</b>	<b>Loans and finance lease receivables</b>	<b>Due from banks and financial institutions</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
<i>Carrying amount</i>				
Stage 1	491,789	2,190	88,183	241,355
Stage 2	179,427	-	-	-
Stage 3	126,563	-	-	-
<i>Allowance for impairment</i>				
- 12 month ECL (stage 1)	(3,151)	(9)	(73)	(2,399)
- Lifetime ECL significant increase in credit risk (stage 2)	(9,492)	-	-	(559)
- Lifetime ECL impaired credits (stage 3)	(62,160)	-	-	-
	<b>722,976</b>	<b>2,181</b>	<b>88,110</b>	<b>238,397</b>

According to the default definition, an asset is considered as default, on objective default (more than 90 days past due) and subjective default (unlikely to pay) conditions. Therefore, the Group considers a financial instrument defaulted and therefore stage 3 (credit-impaired) on these two below conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its financial subsidiaries subject to consolidation is based on a more than 90 days past due definition. If a loan is exactly 90 days past due, it will not be considered as default. Default status starts on the 91st day.
2. Subjective Default Definition: It means it is considered that a debt is unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

Bankpozitif manages its 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.

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

## **Notes to the Condensed Consolidated Interim Financial Information**

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### **11. 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.

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 2019, the share of the Group’s loan to its top 20 credit customers in its total loan portfolio is 99% (31 December 2018 – 98%).

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.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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### 11. Financial risk management (continued)

#### Credit risk (continued)

##### Measuring risk (continued)

Expected loss of credit portfolio is calculated regularly by the Bank. In the calculation, PD values of Group for each rating category is determined by simulating PD's of an international rating institution to the Group's rating classes using "central tendency of the Group" since the Group is lacking such historical data. Central tendency factor is calculated by correlating sectoral non-performing loans ratios of banking sector to Group values. Both rating systems are being used in credit decisions, the first one giving the indications for borrower's repayment capacity, while the second one for facility's repayment capacity. Requirement of facility rating of BB or higher for the new credit clients is the main principle. Regarding retail business, decision trees developed internally (and validated by Experian Scorex) are being used to evaluate retail applicants. G3 scores of Credit Bureau is used in the classification of retail customers.

##### 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 2019	Cash loans	Non-cash loans	Total
Electric production and supply	231,905	18,156	250,061
Other commercial services	130,006	-	130,006
Other financial institutions	-	33,591	33,591
Holding companies	78,828	4,591	83,419
Food, beverage and tobacco industries	71,262	4	71,266
Public works and civil engineering	49,919	18,047	67,966
Building contractor (general and special trade)	30,566	25,110	55,676
Personal other services	2,425	43,189	45,614
Transportation	40,286	173	40,459
Machinery and equipment	-	26,107	26,107
Electrical and electronic equipment	-	13,240	13,240
Consumer loans	8,300	-	8,300
Metal and by-products	-	-	-
Trade	-	1,956	1,956
Textile and clothing	-	30	30
Others	-	18,467	18,467
<b>Total performing loans</b>	<b>643,497</b>	<b>202,661</b>	<b>846,158</b>
Loans in arrears	157,615	-	157,615
Interest accruals	10,562	-	10,562
Loss allowances (amounts arising from ECL)	(77,976)	(9,660)	(87,636)
<b>Total loans</b>	<b>733,698</b>	<b>193,001</b>	<b>926,699</b>

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As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***11. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

<b>31 December 2018</b>	<b>Cash loans</b>	<b>Non-cash loans</b>	<b>Total</b>
Electric production and supply	238,455	15,338	253,793
Other commercial services	126,188	-	126,188
Other financial institutions	-	58,354	58,354
Holding companies	77,948	6	77,954
Food, beverage and tobacco industries	79,458	4	79,462
Public works and civil engineering	46,685	2,100	48,785
Building contractor (general and special trade)	39,678	91,187	130,865
Personal other services	2,575	23,554	26,129
Transportation	40,430	-	40,430
Machinery and equipment	-	23,497	23,497
Electrical and electronic equipment	-	10,220	10,220
Consumer loans	1,133	-	1,133
Metal and by-products	-	53	53
Trade	-	13,675	13,675
Textile and clothing	796	30	826
Others	6,870	3,337	10,207
<b>Total performing loans</b>	<b>660,216</b>	<b>241,355</b>	<b>901,571</b>
Loans in arrears	126,563	-	126,563
Interest accruals	11,000	-	11,000
Loss allowances (amounts arising from ECL)	(74,803)	(2,958)	(77,761)
<b>Total loans</b>	<b>722,976</b>	<b>238,397</b>	<b>961,373</b>



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***11. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

Total collateralisation coverage of cash and non-cash loans are 92% as at 30 June 2019 (31 December 2018 – 94%).

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

	<b>30 June 2019</b>	<b>31 December 2018</b>
<b>Cash loans (including financial lease receivables) under loan in arrears</b>		
Secured by mortgages	122,099	116,055
Unsecured	35,516	10,508
<b>Total</b>	<b>157,615</b>	<b>126,563</b>
<b>Cash loans (including financial lease receivables) except loan in arrears</b>		
Secured by mortgages	196,639	271,364
Secured by assignment and cheques	270,067	266,595
Secured by pledge	112,728	109,316
Secured by guarantee	66,365	15,297
Secured by cash	7,937	7,267
Unsecured	323	1,377
<b>Total</b>	<b>654,059</b>	<b>671,216</b>
<b>Non-cash loans</b>		
Secured by guarantee	128,310	151,076
Unsecured	51,761	53,000
Secured by assignment and cheques	17,808	32,877
Secured by pledge	4,585	4,220
Secured by cash	197	182
Secured by mortgages	-	-
<b>Total</b>	<b>202,661</b>	<b>241,355</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

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### 11. 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.

<b>30 June 2019</b>	<b>Carrying amount</b>	<b>Gross outflow</b>	<b>On demand</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>
Interbank and other money market deposits	31,347	31,347	-	31,347	-	-	-	-
Funds borrowed	596,608	628,087	-	271,838	16,735	66,830	177,128	95,556
Debt securities issued	-	-	-	-	-	-	-	-
Current account of loan customers <sup>(1)</sup>	28,933	28,933	-	28,933	-	-	-	-
	<b>656,888</b>	<b>688,367</b>	<b>-</b>	<b>332,118</b>	<b>16,735</b>	<b>66,830</b>	<b>177,128</b>	<b>95,556</b>

(1) Included in other liabilities.

<b>31 December 2018</b>	<b>Carrying amount</b>	<b>Gross outflow</b>	<b>On demand</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>
Interbank and other money market deposits	590	590	-	590	-	-	-	-
Funds borrowed	613,380	651,280	-	322,340	15,307	41,165	165,151	107,317
Debt securities issued	-	-	-	-	-	-	-	-
Current account of loan customers <sup>(1)</sup>	21,376	21,376	-	19,919	-	-	1,457	-
	<b>635,346</b>	<b>673,246</b>	<b>-</b>	<b>342,849</b>	<b>15,307</b>	<b>41,165</b>	<b>166,608</b>	<b>107,317</b>

(1) Included in other liabilities.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

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### 11. Financial risk management (continued)

#### Liquidity risk (continued)

30 June 2019	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	-	576	22,855	-	-	-	23,431
Forward sale contracts	-	644	22,927	-	-	-	23,571
Currency swap purchases	111,451	17,990	119,878	34,357	-	-	283,676
Currency swap sales	107,209	17,265	120,808	34,842	-	-	280,124
Interest rate cap/floor purchase contracts	-	-	-	-	-	167,857	167,857
	<b>218,660</b>	<b>36,475</b>	<b>286,468</b>	<b>69,199</b>	<b>-</b>	<b>167,857</b>	<b>778,659</b>

  

31 December 2018	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	370	-	-	-	-	-	370
Forward sale contracts	368	-	-	-	-	-	368
Currency swap purchases	18,870	150,018	38,103	-	-	-	206,991
Currency swap sales	18,918	150,990	39,360	-	-	-	209,268
Interest rate cap/floor purchase contracts	-	-	-	-	-	153,443	153,443
	<b>38,526</b>	<b>301,008</b>	<b>77,463</b>	<b>-</b>	<b>-</b>	<b>153,443</b>	<b>570,440</b>

#### 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 2019, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 193 (31 December 2018 – TL 184) 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.

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

<b>30 June 2019</b>	<b>USD</b>	<b>EUR</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>				
Due from banks and financial institutions	939	327	87	1,353
Financial assets held for trading	3,204	-	-	3,204
Reserve deposits at central Banks	72,145	-	-	72,145
Loans and finance lease receivables	462,867	175,001	405	638,273
Other assets	318	34	-	352
<b>Total assets</b>	<b>539,473</b>	<b>175,362</b>	<b>492</b>	<b>715,327</b>
<b>Liabilities</b>				
Trading liabilities	3,609	-	-	3,609
Funds borrowed	289,587	306,320	-	595,907
Other liabilities	5,808	15,068	-	20,876
<b>Total liabilities</b>	<b>299,004</b>	<b>321,388</b>	<b>-</b>	<b>620,392</b>
<b>Gross exposure</b>	<b>240,469</b>	<b>(146,026)</b>	<b>492</b>	<b>94,935</b>
<b>Off-balance sheet position</b>				
Net notional amount of derivatives	(241,521)	146,046	(294)	(95,769)
<b>Net exposure</b>	<b>(1,052)</b>	<b>20</b>	<b>198</b>	<b>(834)</b>
<b>31 December 2018</b>				
<b>Assets</b>				
Due from banks and financial institutions	1,298	452	119	1,869
Financial assets held for trading	5,859	-	-	5,859
Reserve deposits at central Banks	71,631	-	-	71,631
Loans and finance lease receivables	462,547	170,940	434	633,921
Other assets	5,078	-	-	5,078
<b>Total assets</b>	<b>546,413</b>	<b>171,392</b>	<b>553</b>	<b>718,358</b>
<b>Liabilities</b>				
Trading liabilities	2,734	-	-	2,734
Funds borrowed	327,095	285,088	-	612,183
Other liabilities	8,071	10,092	-	18,163
<b>Total liabilities</b>	<b>337,900</b>	<b>295,180</b>	<b>-</b>	<b>633,080</b>
<b>Gross exposure</b>	<b>208,513</b>	<b>(123,788)</b>	<b>553</b>	<b>85,278</b>
<b>Off-balance sheet position</b>				
Net notional amount of derivatives	(206,435)	124,266	(427)	(82,596)
<b>Net exposure</b>	<b>2,078</b>	<b>478</b>	<b>126</b>	<b>2,682</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

### 11. Financial risk management (continued)

#### Currency risk (continued)

##### Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 30 June 2019 and 31 December 2018 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 2019		31 December 2018	
	Equity	Profit or loss	Equity	Profit or loss
USD	(105)	(105)	218	218
EUR	2	2	48	48
Other currencies	20	20	13	13
<b>Total</b>	<b>(83)</b>	<b>(83)</b>	<b>279</b>	<b>279</b>

A 10% strengthening of the TL against the foreign currencies at 30 June 2019 and 31 December 2018 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 department accompanied by an interest sensitive gap representation to illustrate the negative and positive amounts of relevant time buckets.

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

### 11. 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 2019	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	-	-	-	-	-	-	-	-	-	7	7
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	1,711	1,711
Interbank and other money market placements	16,032	-	-	-	-	-	-	-	-	-	16,032
Reserve deposits at central banks	68,838	-	-	-	-	-	-	-	-	4,399	73,237
Trading assets	4,632	3,290	6,012	84	-	-	-	-	-	-	14,018
Investment securities	30,126	6,341	18,087	-	-	-	-	-	-	-	54,554
Loan securities	5,235	11,358	14,758	-	-	-	-	-	-	-	31,351
Loans and finance lease receivables	28,819	76,075	17,578	71,385	139,600	56,803	42,971	34,700	186,128	79,639	733,698
Other assets	-	-	-	-	-	-	-	-	-	74,022	74,022
<b>Total assets</b>	<b>153,682</b>	<b>97,064</b>	<b>56,435</b>	<b>71,469</b>	<b>139,600</b>	<b>56,803</b>	<b>42,971</b>	<b>34,700</b>	<b>186,128</b>	<b>159,778</b>	<b>998,630</b>
<b>Liabilities</b>											
Other money market deposits	31,347	-	-	-	-	-	-	-	-	-	31,347
Funds borrowed	265,400	14,527	29,141	-	-	-	-	-	287,540	-	596,608
Trading liabilities	28	3,655	999	2	-	-	-	-	-	-	4,684
Other liabilities <sup>(1)</sup>	9,492	-	838	148	1,070	1,458	-	-	4,912	39,503	57,421
<b>Total liabilities</b>	<b>306,267</b>	<b>18,182</b>	<b>30,978</b>	<b>150</b>	<b>1,070</b>	<b>1,458</b>	<b>-</b>	<b>-</b>	<b>292,452</b>	<b>39,503</b>	<b>690,060</b>
<b>Financial position interest sensitivity gap</b>	<b>(152,585)</b>	<b>78,882</b>	<b>25,457</b>	<b>71,319</b>	<b>138,530</b>	<b>55,345</b>	<b>42,971</b>	<b>34,700</b>	<b>(106,324)</b>	<b>120,275</b>	<b>308,570</b>
Off-balance sheet interest sensitivity gap, net	4,244	658	(1,001)	(485)	-	-	-	-	167,857	-	171,273
<b>Total interest sensitivity gap</b>	<b>(148,341)</b>	<b>79,540</b>	<b>24,456</b>	<b>70,834</b>	<b>138,530</b>	<b>55,345</b>	<b>42,971</b>	<b>34,700</b>	<b>61,533</b>	<b>120,275</b>	<b>479,843</b>

<sup>(1)</sup> Other liabilities comprise trading liabilities, other liabilities and provisions.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information As of and for the six-month period ended 30 June 2019

(Currency - In thousands of Turkish Lira)

### 11. Financial risk management (continued)

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

31 December 2018	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	-	-	-	-	-	-	-	-	-	2,602	2,602
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	2,181	2,181
Interbank and other money market placements	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at central banks	68,324	-	-	-	-	-	-	-	-	4,142	72,466
Trading assets	36	7,893	5,163	-	-	-	-	-	-	-	13,092
Investment securities	38,981	15,695	32,841	-	-	-	-	-	-	-	87,517
Loaned securities	233	-	360	-	-	-	-	-	-	-	593
Loans and finance lease receivables	31,529	170,988	17,098	48,632	59,424	100,422	27,232	29,240	186,652	51,759	722,976
Other assets	-	-	-	-	-	-	-	-	-	69,914	69,914
<b>Total assets</b>	<b>139,103</b>	<b>194,576</b>	<b>55,462</b>	<b>48,632</b>	<b>59,424</b>	<b>100,422</b>	<b>27,232</b>	<b>29,240</b>	<b>186,652</b>	<b>130,598</b>	<b>971,341</b>
<b>Liabilities</b>											
Other money market deposits	590	-	-	-	-	-	-	-	-	-	590
Funds borrowed	316,075	14,944	17,765	18,139	36,278	36,278	36,278	36,278	101,345	-	613,380
Trading liabilities	42	5,877	856	-	-	-	-	-	-	-	6,775
Other liabilities	8,267	-	-	-	-	1,458	-	-	-	30,519	40,244
<b>Total liabilities</b>	<b>324,974</b>	<b>20,821</b>	<b>18,621</b>	<b>18,139</b>	<b>36,278</b>	<b>37,736</b>	<b>36,278</b>	<b>36,278</b>	<b>101,345</b>	<b>30,519</b>	<b>660,989</b>
<b>Financial position interest sensitivity gap</b>	<b>(185,871)</b>	<b>173,755</b>	<b>36,841</b>	<b>30,493</b>	<b>23,146</b>	<b>62,686</b>	<b>(9,046)</b>	<b>(7,038)</b>	<b>85,307</b>	<b>100,079</b>	<b>310,352</b>
Off-balance sheet interest sensitivity gap, net	(49)	(969)	(1,257)	-	-	-	-	-	153,443	-	151,168
<b>Total interest sensitivity gap</b>	<b>(185,920)</b>	<b>172,786</b>	<b>35,584</b>	<b>30,493</b>	<b>23,146</b>	<b>62,686</b>	<b>(9,046)</b>	<b>(7,038)</b>	<b>238,750</b>	<b>100,079</b>	<b>461,520</b>

<sup>(1)</sup> Other liabilities comprise trading liabilities, other liabilities and provisions.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***11. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)**

As at 30 June 2019 and 31 December 2018, the effective interest rate applied on balance sheet items summarised as follows:

<b>30 June 2019 (%)</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>JPY</b>	<b>GBP</b>
Due from banks and financial institutions	13.00	2.00	-	-	-	-
Interbank and other money market placements	27.08	-	-	-	-	-
Fair value through other comprehensive income	6.55	-	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	30.79	7.85	4.82	-	-	-
- Retail loans	18.55	-	-	7.20	-	-
Other money market deposits	-	-	-	-	-	-
Funds borrowed and debt securities issued	11.48	6.20	2.80	3.76	-	-
Current account of loan customers <sup>(1)</sup>	18.82	-	-	-	-	-
<b>31 December 2018 (%)</b>	<b>TL</b>	<b>USD</b>	<b>EUR</b>	<b>CHF</b>	<b>JPY</b>	<b>GBP</b>
Due from banks and financial institutions	13.00	2.00	-	-	-	-
Interbank and other money market placements	25.21	-	-	-	-	-
Marketable securities (Investment and trading)	7.52	-	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	31.64	7.66	4.85	-	-	-
- Retail loans	18.57	-	-	7.20	-	-
Other money market deposits	-	-	-	-	-	-
Funds borrowed and debt securities issued	17.92	7.62	2.94	3.76	-	-
Current account of loan customers <sup>(1)</sup>	18.86	2.00	-	-	-	-

<sup>(1)</sup>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 since 2009 which is reviewed and approved by Board of Directors.



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***11. 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>30 June 2019</b>	<b>31 December 2018</b>
<b>Local TL interest rate</b>		
+500 bps	(0.71)	(0.66)
-400 bps	1.24	1.06
<b>Foreign currency interest rate</b>		
+200 bps EUR	3.54	3.60
-200 bps EUR	0.41	(0.34)
+200 bps USD	(6.20)	(6.16)
-200 bps USD	6.23	6.90

**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 2019 and 31 December 2018 is as follows:

	<b>30 June 2019</b>	<b>31 December 2018</b>
Amount subject to credit risk (I)	851,740	859,433
Amount subject to market risk (II)	27,250	18,813
Amount subject to operational risk (III)	107,333	71,057
<b>Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)</b>	<b>986,323</b>	<b>949,303</b>
Capital for the purpose of calculating the capital adequacy ratio	303,761	304,641
<b>Capital adequacy ratio</b>	<b>30.80%</b>	<b>32.09%</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***12. 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.

<b>30 June 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	46,368	46,368
<i>Financial instruments</i>				
Financial assets at fair value through profit or loss	6,065	7,953	-	14,018
Investment and loaned securities	85,905	-	-	85,905
	<b>91,970</b>	<b>7,953</b>	<b>46,368</b>	<b>146,291</b>
<i>Financial instruments</i>				
Financial liabilities at fair value through profit or loss	-	4,684	-	4,684
	-	<b>4,684</b>	-	<b>4,684</b>
<b>31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	46,279	46,279
<i>Financial instruments</i>				
Financial assets at fair value through profit or loss	7,197	5,895	-	13,092
Investment and loaned securities	88,110	-	-	88,110
	<b>95,307</b>	<b>5,895</b>	<b>46,279</b>	<b>147,481</b>
<i>Financial instruments</i>				
Financial liabilities at fair value through profit or loss	-	6,775	-	6,775
	-	<b>6,775</b>	-	<b>6,775</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***13. 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.

<b>Current Period</b>	<b>Asset management and treasury</b>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Non-financial services</b>	<b>Total</b>
Interest income	20,666	33,146	74	65	53,951
Interest expense	(20,814)	(810)	-	-	(21,624)
Internal transfer rate income/(expense)	30,343	(30,206)	(137)	-	-
<b>Net interest income</b>	<b>30,195</b>	<b>2,130</b>	<b>(63)</b>	<b>65</b>	<b>32,327</b>
Net fee and commission income/(expense)	(117)	2,824	1	-	2,708
Net trading income and foreign exchange gain, net	(107)	76	-	354	323
Other operating income	316	103	-	177	596
<b>Total operating income</b>	<b>30,287</b>	<b>5,133</b>	<b>(62)</b>	<b>596</b>	<b>35,954</b>
Net impairment loss on financial and non-financial assets	199	(10,189)	20	-	(9,970)
Total operating expenses	(15,452)	(8,653)	(332)	(485)	(24,922)
<b>Profit/(loss) before income tax</b>	<b>15,034</b>	<b>(13,709)</b>	<b>(374)</b>	<b>111</b>	<b>1,062</b>
Income tax	(2,366)	2,142	58	-	(166)
<b>Net profit/(loss) for the period</b>	<b>12,668</b>	<b>(11,567)</b>	<b>(316)</b>	<b>111</b>	<b>896</b>
<b>Total assets</b>	<b>908,947</b>	<b>81,522</b>	<b>1,332</b>	<b>6,829</b>	<b>998,630</b>
<b>Total liabilities</b>	<b>658,847</b>	<b>31,132</b>	<b>80</b>	<b>1</b>	<b>690,060</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the six-month period ended 30 June 2019***(Currency - In thousands of Turkish Lira)***13. Operating segments (continued)**

<b>Prior Period</b>	<b>Headquarter and treasury</b>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Non-financial services</b>	<b>Total</b>
Interest income	20,365	35,289	251	371	56,276
Interest expense	(30,599)	(651)	-	-	(31,250)
Internal transfer rate income/(expense)	24,038	(23,800)	(238)	-	-
<b>Net interest income</b>	<b>13,804</b>	<b>10,838</b>	<b>13</b>	<b>371</b>	<b>25,026</b>
Net fee and commission income/(expense)	(152)	4,889	(3)	-	4,734
Net trading income and foreign exchange gain, net	2,100	557	110	6	2,773
Other operating income	(459)	645	45	210	441
<b>Total operating income</b>	<b>15,293</b>	<b>16,929</b>	<b>165</b>	<b>587</b>	<b>32,974</b>
Net impairment loss on financial and non-financial assets	(47)	(2,620)	(221)	-	(2,888)
Total operating expenses	(13,413)	(10,347)	(2,492)	(448)	(26,700)
<b>Profit/(loss) before income tax</b>	<b>1,833</b>	<b>3,962</b>	<b>(2,548)</b>	<b>139</b>	<b>3,386</b>
Income tax	(840)	-	-	399	(441)
<b>Net profit/(loss) for the period</b>	<b>993</b>	<b>3,962</b>	<b>(2,548)</b>	<b>538</b>	<b>2,945</b>
<b>Total assets</b>	<b>189,965</b>	<b>771,943</b>	<b>2,060</b>	<b>7,373</b>	<b>971,341</b>
<b>Total liabilities</b>	<b>636,881</b>	<b>23,344</b>	<b>106</b>	<b>658</b>	<b>660,989</b>

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

## **Notes to the Condensed Consolidated Interim Financial Information**

**As of and for the six-month period ended 30 June 2019**

*(Currency - In thousands of Turkish Lira)*

### **14. Rating**

As at 30 June 2019, the Bank's ratings assigned by international rating agency, Fitch Ratings is as follows:

#### **Fitch Ratings, June 2019**

Long Term Foreign Currency IDR	BB- (Negative)
Short Term Foreign Currency IDR	F3
Support	3
Long Term Local Currency IDR	BB (Negative)
Short Term Local Currency	B
National	AA + (tur) (Stable)

### **15. Subsequent and other events**

None.