

**Bankpozitif Kredi ve Kalkınma
Bankası Anonim Şirketi**

**Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information
For the Nine-Month Period Ended
30 September 2018**

8 November 2018

This report contains 2 pages of independent auditors' report on review of condensed consolidated interim financial information and 45 pages of condensed consolidated financial statements and notes to the condensed consolidated interim financial information.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi ("the Bank") and its subsidiary (together "the Group") as at 30 September 2018, the condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the nine-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial information based on our review.

Scope of review

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



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 September 2018 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

Emphasis of Matter

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

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

Alper Güvenç
Partner

8 November 2018
İstanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Financial Position****As at 30 September 2018***(Currency - In thousands of Turkish Lira)*

		Reviewed	Audited
		30 September 2018	31 December 2017
ASSETS			
Cash and balances with central banks		1,194	6
Due from banks and financial institutions		78,460	9,643
Interbank and other money market placements		5,026	235,745
Reserve deposits at central banks		109,134	69,512
Trading assets		10,052	7,486
Investment securities		57,400	60,486
Loaned securities		19,643	14,178
Loans and finance lease receivables	4	836,668	928,707
Property, plant and equipment		2,603	2,742
Intangible assets		6,587	7,381
Deferred tax assets	5	7,272	3,765
Investment property	6	58,279	58,279
Other assets		43,087	35,106
Total assets		1,235,405	1,433,036
LIABILITIES			
Other money market deposits		18,765	30,177
Trading liabilities		30,616	4,426
Funds borrowed	7	688,796	339,028
Debt securities issued	8	118,800	637,743
Other liabilities		34,579	48,031
Provisions		10,778	7,047
Total liabilities		902,334	1,066,452
EQUITY			
Share capital and share premium	9	379,114	379,114
Legal reserves		16,168	16,168
Available-for-sale reserve, net of tax	9	-	4,918
Fair value reserve of debt instruments at fair value through other comprehensive income (FVOCI), net of tax	9	5,875	-
Accumulated losses		(68,086)	(33,616)
Total equity		333,071	366,584
Total equity and liabilities		1,235,405	1,433,036

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss****For the nine-month period ended 30 September 2018***(Currency - In thousands of Turkish Lira)*

	Reviewed	Not Reviewed	Reviewed	Not Reviewed
	1 January –	1 July –	1 January –	1 July –
	30 September	30 September	30 September	30 September
	2018	2018	2017	2017
Note				
Continuing operations				
Interest income				
Interest income on loans and finance leases	55,615	20,078	69,177	21,667
Interest income on deposits with other banks and financial institutions	3,241	1,180	2,661	632
Interest income on investment securities	4,474	1,664	3,169	1,460
Interest income on interbank and other money market placements	4,179	408	5,188	3,625
Other interest income	23,872	11,775	1,206	113
Total interest income	91,381	35,105	81,401	27,497
Interest expense				
Interest expense on other money market deposits	(1,315)	(720)	(406)	(10)
Interest expense on funds borrowed	(24,097)	(11,529)	(30,579)	(11,325)
Interest expense on debt securities issued	(19,680)	(5,776)	(16,575)	(5,359)
Other interest expense	(6,475)	(2,292)	(3,027)	(1,188)
Total interest expense	(51,567)	(20,317)	(50,587)	(17,882)
Net interest income	39,814	14,788	30,814	9,615
Fees and commission income	6,541	1,509	4,450	1,138
Fees and commission expense	(557)	(259)	(1,596)	(198)
Net fee and commission income	5,984	1,250	2,854	940
Net trading income and foreign exchange gain, net	6,134	3,361	860	642
Other operating income	14	1,864	1,263	366
Total operating income	53,796	20,822	35,791	11,563
Net impairment reversal/(loss) on financial assets	4	(29,917)	4,922	2,327
Personnel expenses	(17,617)	(5,692)	(16,881)	(5,300)
Depreciation and amortisation	(1,688)	(538)	(2,039)	(598)
Administrative expenses	(15,767)	(5,702)	(13,714)	(4,399)
Taxes other than on income	(399)	(234)	(557)	(109)
Other expenses	(4,246)	(851)	(1,860)	(438)
Total operating expenses	(39,717)	(13,017)	(35,051)	(10,844)
Profit/(loss) before income tax	(15,838)	(19,224)	5,662	3,046
Income tax	3,780	4,221	(952)	(406)
Profit/(loss) for the period	(12,058)	(15,003)	4,710	2,640

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ
Condensed Consolidated Interim Statement of Other Comprehensive Income
For the nine-month period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

	Reviewed	Reviewed
	1 January –	1 January –
	30 September 2018	30 September 2017
Profit for the period	(12,058)	4,710
Other comprehensive income		
<i>Items that will never be reclassified to profit or loss</i>		
Re-measurement of employee termination benefits	(1,544)	(246)
Deferred tax	309	49
	(1,235)	(197)
<i>Items that are or may be reclassified to profit or loss</i>		
Net change in fair value of available-for-sale financial assets	-	2,898
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	379
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI)	1,384	-
Net amount reclassified to the income statement on sale of debt instruments at FVOCI	(154)	-
Deferred tax	(273)	(655)
	957	2,622
Other comprehensive income for the period, net of income tax	(278)	2,425
Total comprehensive income for the period	(12,336)	7,135

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Cash Flows****For the nine-month period ended 30 September 2018***(Currency - In thousands of Turkish Lira)*

	Reviewed	Reviewed
	1 January –	1 January –
<i>Note</i>	30 September 2018	30 September 2017
Cash flows from operating activities		
Interest received	90,565	67,284
Interest paid	(51,284)	(51,984)
Fees and commissions received	5,339	4,738
Fees and commissions paid	(557)	(1,596)
Trading income	3,026	884
Recoveries from non-performing loans	11,735	17,805
Cash payments to employees and other parties	(16,118)	(23,700)
Cash received from/(paid to) other operating activities	1,864	(9,977)
Cash paid for other operating activities	(1,840)	(9,516)
	42,730	(6,062)
Change in banks and financial institutions	-	348
Change in trading assets	1,605	1,302
Change in reserve deposits at central banks	(39,390)	84,044
Change in loans and finance lease receivables	122,329	226,635
Change in other assets	(8,273)	11,175
Change in interbank and other money market deposits	(11,411)	(17,618)
Change in other liabilities	(11,859)	(4,167)
Net cash from operating activities	95,731	295,657
Cash flows from investing activities		
Purchases of investment securities	(25,301)	(14,295)
Proceeds from sale and redemption of investment securities	26,718	11,344
Purchases of property and equipment	(767)	(1,128)
Proceeds from the sale of premises and equipment	7	9
Purchases of intangible assets	(29)	(1,274)
Net cash used in investing activities	628	(5,344)
Cash flows from financing activities		
Proceeds from funds borrowed	1,207,044	889,762
Repayment of funds borrowed	(983,289)	(1,145,200)
Proceeds from debt securities issued	117,654	95,902
Repayment of debt securities issued	(627,124)	(66,143)
Net cash used in financing activities	(285,715)	(225,679)
Effect of net foreign exchange difference on cash and cash equivalents	28,590	2,473
Net (decrease) / increase in cash and cash equivalents	(160,766)	67,107
Cash and cash equivalents at 1 January	245,394	70,117
Cash and cash equivalents at 30 September	84,628	137,224

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

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BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

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

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

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

As at 30 September 2018, 69.83% (31 December 2017 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2017 – 30.17%) of the shares belong to C Faktoring A.Ş.

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2018

(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 September 2018, the Bank provides services through its head office. As at 30 September 2018, the number of employees for the Bank and its consolidated subsidiaries are 73 and 2, respectively (31 December 2017 – 127 and 2).

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

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 30 September 2018 and 31 December 2017 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			30 September 2018	31 December 2017
C Bilişim	Istanbul/Turkey	Software development and technology	100	100

2. Basis of preparation

The interim consolidated condensed financial statements as of 30 September 2018 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with annual consolidated financial statements of the Group for the year ended 31 December 2017.

In preparation of the interim condensed consolidated financial statements of the Group, the same accounting policies except than IFRS 9 and IFRS 15 and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of September 2018, noted below.

The Group has started to apply IFRS 9 Financial Instruments ("IFRS 9") published by in the accompanying consolidated financial statements starting from 1 January 2018 for the first time based in connection with procedures and principals regarding classification of loans and allowances allocated for such loans which came into force starting from 1 January 2018.

IFRS 15 and 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 period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

2. Basis of preparation *(continued)*

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 *Investment Properties*. IFRS 16 *Leases* eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IAS 12 *Income Taxes*

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

2. Basis of preparation (continued)

Transition disclosures of IFRS 9 –Financial instruments

Significant changes in accounting policies and significant accounting errors identified are applied retrospectively and the prior period financial statements are restated. According to IFRS 9 and IFRS 15 transitional provisions, prior period financial statements and footnotes are not restated. Changes in accounting policies for these new standards are presented in the current accounting policies.

	Original classification under IAS 39	31 December 2017	IFRS 9 Classifications	IFRS 9 Remeasurement	1 January 2018	New classification under IFRS 9
ASSETS						
Other money market placements	Loans and receivables	235,745	-	(28)	235,717	Amortised cost
Loans and finance lease receivables	Loans and receivables	928,707	-	(17,046)	911,661	Amortised cost
Investment securities – available-for-sale	Available- for-sale	60,486	(60,486)	-		
Investment securities – FVOCI			60,486	-	60,486	FVOCI
Loaned securities – available for sale	Available- for-sale	11,273	(11,273)	-		
Loaned securities – FVOCI			11,273	-	11,273	FVOCI
Loaned securities – trading assets	FVTPL	2,905	-	-	2,905	FVTPL
Deferred tax assets		3,765	-	1,625	5,390	
Other assets	Loans and receivables	35,106	-	(1,321)	33,785	Amortised cost
LIABILITIES						
Provisions		7,047	-	4,407	11,454	
Accumulated losses		(33,616)	-	(21,177)	(54,793)	

Explanations on financial assets

The Group categorizes its financial assets as “Fair Value Through Profit/Loss”, “Fair Value Through Other Comprehensive Income” or “Measured at Amortized Cost”. Such financial assets are recognized or derecognized according to IFRS 9 - Financial Instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than “Financial Assets at Fair Value Through Profit or Loss”, transaction costs are added to fair value or deducted from fair value. The Group recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank’s management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to earnings, losses or interest that were previously recorded in the financial statements.

- a) Financial assets at the fair value through profit or loss: “Financial assets at fair value through profit/loss” are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short- term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

2. Basis of preparation *(continued)*

Transition disclosures of IFRS 9 –Financial instruments *(continued)*

Explanations on financial assets *(continued)*

- b) **Financial Assets at Fair Value Through Other Comprehensive Income:** In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. During initial recognition an entity may irrevocably elect to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.
- c) **Financial Assets Measured at Amortized Cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost. Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.
- d) **Derivative Financial Assets:** The major derivative instruments utilized by the Group are foreign currency and interest rate swaps, cross currency swaps, currency options and currency forwards. Derivative financial instruments of the Group are classified under “IFRS 9 Financial Instruments” (“IFRS 9”), “Derivative Financial Assets Designated at Fair Value through Profit or Loss”. Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values. Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, if the fair value is positive, the amount is classified as “Derivative Financial Assets Designated at Fair Value Through Profit or Loss” or “Derivative Financial Assets Designated at Fair Value Through Other Comprehensive Income”, if the fair value is negative, the amount is classified as “Derivative Financial Liabilities Designated at Fair Value Through Profit or Loss” or “Derivative Financial Liabilities Designated at Fair Value Through Other Comprehensive Income”. The fair value differences of derivative financial instruments are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions.
- e) **Loans:** Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the “Effective Interest Rate (internal rate of return) Method”. Group’s loans are recorded under the “Measured at Amortized Cost” account.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

2. Basis of preparation *(continued)*

Transition disclosures of IFRS 9 –Financial instruments *(continued)*

Explanations on financial assets *(continued)*

Explanations on expected credit loss:

The Group allocates impairment for expected loss on financial assets measured at amortized cost and measured at fair value through other comprehensive income. As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of IAS 39 is changed by applying the expected credit loss model under IFRS 9.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions.

These financial assets are divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2: In the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses.

Stage 3: Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

3. Use of judgements and estimates

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at end for the year ended 31 December 2017 except than estimations used for expected credit loss calculation according to IFRS 9 explained in Note 2 – Basis of preparation - Transition disclosures of IFRS 9 –Financial instruments, Explanations on expected credit loss.

Measurement of fair values

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

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

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

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***4. Loans and finance lease receivables**

30 September 2018	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	37,573	738,123	-	775,696
Consumer loans	932	-	611	1,543
Total loans and finance lease receivables	38,505	738,123	611	777,239
Loans and finance lease receivables in arrears	124,892	-	-	124,892
Less: 12 month ECL (stage 1)	(2,769)	-	-	(2,769)
Less: Lifetime ECL significant increase in credit risk (stage 2)	(2,289)	-	-	(2,289)
Less: Lifetime ECL impaired credits (stage 3)	(60,405)	-	-	(60,405)
	97,934	738,123	611	836,668

31 December 2017	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	158,777	661,912	64,168	884,857
Consumer loans	2,213	-	695	2,908
Total loans and finance lease receivables	160,990	661,912	64,863	887,765
Loans and finance lease receivables in arrears	58,217	-	-	58,217
Less: Specific reserve for impairment	(14,450)	-	-	(14,450)
Less: Portfolio reserve for impairment	(2,825)	-	-	(2,825)
	201,932	661,912	64,863	928,707

As at 30 September 2018, loans and finance lease receivables with floating rates are TL 76,250 (31 December 2017 – TL 151,689) and fixed interest rates are TL 700,989 (31 December 2017 – TL 736,076).

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As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***4. Loans and finance lease receivables (continued)**

Movements in non-performing loans and finance lease receivables:

	30 September 2018	31 December 2017
Non-performing loans and finance lease receivables at 1 January	58,217	76,153
Additions to non-performing loans and finance lease receivables	80,182	2,048
Recoveries	(11,735)	(18,629)
Write-offs ⁽¹⁾	(1,772)	(1,355)
Non-performing loans and finance lease receivables at the end of period	124,892	58,217

⁽¹⁾ TL 1,772 of non-performing loans and finance lease receivables were sold to an asset management company as at 30 September 2018 (31 December 2017 – TL 1,355).

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

	30 September 2018
Reserve at the beginning of the year	17,275
IFRS 9 transition impact	17,046
Provision net of recoveries	29,917
- <i>Credit loss expense on financial assets</i>	40,445
- <i>Recoveries</i>	(10,528)
Write-offs	1,225
Reserve at the end of the period	65,463

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

	31 December 2017
Reserve at the beginning of the year	23,564
Provision net of recoveries	(5,781)
- <i>Provision for loan and finance lease receivables impairment</i>	1,534
- <i>Recoveries</i>	(7,315)
Write-offs	(508)
Reserve at the end of the period	17,275

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5. 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 twentyfifth 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 September 2018, TL 1,989 of deferred tax assets are recognised for TL 9,041 of tax losses of the Group (31 December 2017: TL 3,146 of deferred tax assets and TL 15,730 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 68,504, (31 December 2017: TL 57,501).

Deferred tax assets reflected on the balance sheets for 30 September 2018 and 31 December 2017 are:

	30 September 2018	31 December 2017
Deferred tax assets	7,272	3,765

6. Investment Property

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

Accordingly, the Hotel was valued by an independent appraiser. According to the report dated 7 December 2016 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 58,279 for shares of the land and building owned by the Group determined according to the discounted cash flow projections approach.

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 September 2018	1 January – 31 December 2017
Balance at 1 January	58,279	58,250
Additions	-	29
Change in fair value	-	-
Total	58,279	58,279

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***7. Funds borrowed**

	30 September 2018		31 December 2017	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term⁽¹⁾				
Fixed interest	11,091	265,672	259	109,886
Floating interest	-	69,532	-	14,228
Long-term⁽¹⁾				
Fixed interest	-	342,501	-	214,655
Floating interest	-	-	-	-
Total	11,091	677,705	259	338,769

⁽¹⁾ Based on original maturities.

Floating rate borrowings have interest rate repricing periods of 1 to 9 months.

As at 30 September 2018 and 31 December 2017, funds borrowed are unsecured.

As at 30 September 2018 and 31 December 2017, 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 2017	Cash items	Foreign currency conversion adjustments	Other non-cash items	30 September 2018
Funds borrowed	339,028	223,755	123,213	2,800	688,796
Total	339,028	223,755	123,213	2,800	688,796

	31 December 2016	Cash items	Foreign currency conversion adjustments	Other non-cash items	31 December 2017
Funds borrowed	675,358	(239,738)	(95,562)	(1,030)	339,028
Total	675,358	(239,738)	(95,562)	(1,030)	339,028

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***8. Debt securities issued**

	30 September 2018		31 December 2017	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Debt securities issued at amortised cost	118,800	-	104,284	533,459
Total	118,800	-	104,284	533,459

Reconciliation of movement of debt securities issued to cash flows from financing activities

	31 December 2017	Cash items	Foreign currency conversion adjustments	Other non-cash items	30 September 2018
Debt securities issued	637,743	(509,470)	-	(9,473)	118,800
Total	637,743	(509,470)	-	(9,473)	118,800

	31 December 2016	Cash items	Foreign currency conversion adjustments	Other non-cash items	31 December 2017
Debt securities issued	580,487	16,737	37,905	2,614	637,743
Total	580,487	16,737	37,905	2,614	637,743

9. Capital and reserves

	30 September 2018	31 December 2017
Number of common shares, TL 0.1 (in full TL), par value (Authorized and issued)	3.372.923.500	3.372.923.500

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

9. Capital and reserves (continued)

Share capital and share premium

As at 30 September 2018 and 31 December 2017, the composition of shareholders and their respective percentage of ownership are summarized as follows:

	30 September 2018		31 December 2017	
	Amount	%	Amount	%
Tarshish	235,515	69.83	235,515	69.83
C Faktoring A.Ş.	101,777	30.17	101,777	30.17
	337,292	100.00	337,292	100.00
Share premium	20,121		20,121	
Restatement effect	21,701		21,701	
Share capital and share premium	379,114		379,114	

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

Legal reserves

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

Other reserves

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 September 2018, financial assets measured at fair value through other comprehensive income (FVOCI) reserve is TL 5,875.

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired. According to IFRS 9 regulation, the Bank has recognised the available-for-sale portfolio as FVOCI as of 1 January 2018.

As at 31 December 2017, available-for-sale reserve is TL 4,918.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***10. 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 2017 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial information, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

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

	Shareholders		Directors and key management personnel		Others	
	2018	2017	2018	2017	2018	2017
Loans and finance lease receivables						
At 1 January	-	-	9	27	-	-
At end of the period/year	-	-	-	9	-	-
Interest income ⁽¹⁾	-	-	-	-	-	-

⁽¹⁾ Interest income in the above tables for 2017 represents the balances as of 30 September 2017.

As at 30 September 2018, no provisions have been recognised in respect of loans and finance lease receivables given to related parties (31 December 2017 – none).

	Shareholders		Directors and key management personnel		Others	
	2018	2017	2018	2017	2018	2017
Funds borrowed						
At 1 January	-	282,408	-	-	7,593	7,073
At end of the period/year	301,710	-	-	-	18,463	7,593
Interest expense ⁽¹⁾	(9,558)	(1,218)	-	-	(464)	(445)

⁽¹⁾ Interest expense in the above tables for 2017 represents the balances as of 30 September 2017.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***10. Related parties (continued)**

Other balances with related parties:

Related party		Deposits	Other liabilities	Non-cash loans	Other interest expense
Shareholders	30 September 2018	-	3	3,736	-
	31 December 2017	-	-	-	-
Directors and key management personnel	30 September 2018	-	31	-	-
	31 December 2017	-	-	-	-
Others	30 September 2018	-	304	6	-
	31 December 2017	-	-	-	-

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 7,356 (30 September 2017 – TL 5,014) comprising salaries and other benefits.

11. Commitments and contingencies

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

	30 September 2018	31 December 2017
Letters of guarantee	251,003	276,137
Commitments	2,763	624,436
Letters of credit	2,027	45,294
Other guarantees	22,331	15,623
Total non-cash loans	278,124	961,490

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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(Currency - In thousands of Turkish Lira)

11. Commitments and contingencies (continued)

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

1. The Bank filed a complaint to Enforcement Court against proceeding filed against the Bank because of the fact that the document basis of proceeding is not suitable for enforcement proceeding and the irregularity during proceeding filing transactions. Upon the complaint, the court made a decision of interlocutory injunction and the trial was postponed to 27 October 2016. However, the provisional judge who heard the file during judiciary recess revoked the interlocutory injunction without any justification and the proceeding started over. Despite the dispute filed to the court, no suspension of proceeding again decision was made. During the first trial held on 27 October 2016, the court decided the cancellation of the Execution Proceeding. The other party appealed to the Divisional Court; however the Divisional Court rejected other party's demand. Whereupon the other party also appealed for the decision of the Divisional Court to the Supreme Court. The appellate petition of the other party was received by the Bank. The Bank has been submitted its statements to mentioned appeal and the other party has been submitted their statements to the Bank's appeal. Right after, the Bank sent its respond. The Supreme Court's decision is expected. The Bank's management expects that the appellate will be concluded in favor of the Bank.
2. Upon release of the injunction decision made by Civil Court of Enforcement as described at above article, a Negative Declaratory Action (demand for determination of not being debtor by the court) was filed under the file of 2016/964 by Gaziantep Commercial Court of First Instance no. 1 which is another court in order to stop ongoing proceeding again. During file opening, a letter of guarantee amounting to TL 60,241 was submitted a cautionary judgment was caused to be taken on execution proceeding. The parties submitted declarations to the Court, evidence was provided. The court decided to postpone the hearing to 31 May 2017 for waiting for missing files and evaluating evidence and declarations. In the meantime, as set forth at article one, since the proceeding was revoked and need for taking a cautionary judgment on execution proceeding disappeared automatically, the part TL 7,236 held by the Execution Office of the abovementioned letter of guarantee amounting to TL 60,241 was returned. Decision has been made at the hearing held on 31 May 2017 about returning the letter amounting to TL 7,236 held by the court. At the hearing dated 31 May 2017 the court decided to the judgement of dismissal without any further explanation. The reason for the judgement of dismissal was also not clearly stated in the justified decision sent by the court. It has been stated that the court made the judgement on the basis of Supreme Court's decisions of two test cases which are irrelative with the current case. The Bank appealed to the Divisional Court (1st degree appellate) on 18 July 2017. The other party has been submitted their statements to the Bank's appeal and right after, the Bank sent its respond. The Divisional Court's decision is expected. 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 our appeal request without reviewing the merits of the case on the grounds that none of the evidences indicated in the case file by the Local Court had not been gathered and ruled to revoke the Local Court's decision and send 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 06 July 2018. The Supreme Court's decision is expected.

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 7,236,225 (security amount) previously deposited with the execution office to the Bank when the interim decision is finalized. The next hearing date is 31 October 2018.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

11. Commitments and contingencies (continued)

3. The Bank filed a complaint to Gaziantep Chief Prosecutor's Office against those who attempted the fraud. The Prosecutor's Office made decision of non-prosecution about Gaziantep Çağlar, filing a lawsuit against the assistant manager to the bailiff for misconduct, and opening an investigation about two board members of the Bank for slander and giving misstatement to public authorities. A dispute was filed by the Bank to Criminal Court of Peace against the Prosecutor's Office's decision; however the Court rejected the Bank's request. The Bank applied to the Ministry of Justice in the benefit of administration of the justice for cancellation of Prosecutor's Office decision which is against procedure and the law and likewise the Court decision which rejected the Bank's dispute as biased. The Ministry of Justice expressed its opinion to reverse the unlawful judgement of the prosecution and the file was sent to the Penalty Department no.15 of the Supreme Court. The Penal Department No. 15 of the Supreme Court reversed the decision to reject the Bank's objection and returned the case file to the 3rd Criminal Court of Peace. The 3rd 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 5th 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 5th Aggravated Felony Court. In the hearing held on 06.07.2018, testimonies of some of the witnesses were taken; however, the hearing was re-held on 13.07.2018 due to the fact that the hearing footage had been erased from the NJIS (National Judiciary Informatics System) and the same testimonies were retaken. The next hearing date is 30 October 2018.

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 5th 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 processed. 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 in 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 performed illegal transactions during the judicial process. Upon the Bank's complaints, HSK gave permission for the related investigation; as a result of such investigation carried out by the inspectors, irregularities were determined and 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 judgement 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

Notes to the Condensed Consolidated Interim Financial Information

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(Currency - In thousands of Turkish Lira)

11. Commitments and contingencies (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 judgement was not officially submitted to the land registry during the sale of the hotel and it cannot be detected who inserted this forged document to the land registry file and how or when it was 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 crime element in this regard. Upon the Bank's complaint, the original 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 on-going 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 on-going, 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. and 2017/121 E. filed against the land registry, court and execution office officials and pending before the Gaziantep 5th Aggravated Felony Court and the Gaziantep 15th Criminal Court of First Instance respectively were combined with the case file numbered 201/172 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. The Court decided to consolidate the case file with the Gaziantep 5th Aggravated Felony Court's case file. 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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(Currency - In thousands of Turkish Lira)

11. Commitments and contingencies (continued)

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 has 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.

The on-going litigations filed against the Bank have a total value of TL 1,845 as of 30 June 2018 and the Bank provided TL 1,444 provision for such litigations (such amounts as of 31 December 2017 were TL 1,793 and TL 1,444, respectively).

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12. Financial risk management

Strategy in using financial instruments

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

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

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

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

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

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

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

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

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As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Strategy in using financial instruments (continued)

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

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

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

Credit risk

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)**

30 September 2018	Loans and finance lease receivables	Due from banks and financial institutions	Investment securities and loaned securities	Non cash loans
<i>Carrying amount</i>				
12 month ECL (stage 1)	448,010	78,482	77,111	278,124
Lifetime ECL significant increase in credit risk (stage 2)	329,229	-	-	-
Lifetime ECL impaired credits (stage 3)	124,892	-	-	-
<i>Allowance for impairment</i>				
- 12 month ECL (stage 1)	(2,769)	-	-	-
- Lifetime ECL significant increase in credit risk (stage 2)	(2,289)	-	-	-
- Lifetime ECL impaired credits (stage 3)	(60,405)	(22)	(68)	(3,412)
	836,668	78,460	77,043	274,712
31 December 2017	Loans and finance lease receivables	Due from banks and financial institutions	Investment securities and loaned securities	Non cash loans
Neither past due nor impaired	868,224	9,643	74,664	961,490
Past due but not impaired	19,541	-	-	-
Individually impaired	58,217	-	-	-
Allowance for impairment				
- Individual impairment	(14,450)	-	-	-
- Collective impairment	(2,825)	-	-	-
	928,707	9,643	74,664	961,490

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

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

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

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.

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12. Financial risk management (continued)

Credit risk (continued)

Having a reliable credit allocation function

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

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

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

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

Risk limits

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

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

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

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

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

As at 30 September 2018, the share of the Group’s loan to its top 20 credit customers in its total loan portfolio is 98% (31 December 2017 – 69%).

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12. Financial risk management (continued)

Credit risk (continued)

Measuring risk

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

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk*

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

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

30 September 2018	Cash loans	Non-cash loans	Total
Electric production and supply	278,179	19,334	297,513
Building contractor (general and special trade)	44,204	111,368	155,572
Other commercial services	147,753	-	147,753
Food, beverage and tobacco industries	92,011	4	92,015
Holding companies	88,064	6	88,070
Other financial institutions	-	59,180	59,180
Public works and civil engineering	53,157	2,206	55,363
Transportation	46,035	-	46,035
Machinery and equipment	-	32,141	32,141
Personal other services	2,650	23,669	26,319
Trade	-	13,762	13,762
Electrical and electronic equipment	-	10,274	10,274
Consumer loans	9,362	-	9,362
Textile and clothing	5,133	30	5,163
Metal and by-products	1,826	3,063	4,889
Others	-	3,087	3,087
Total performing loans	768,374	278,124	1,046,498
Loans in arrears	124,892	-	124,892
Interest accruals	8,865	-	8,865
Loss allowances (amounts arising from ECL)	(65,463)	-	(65,463)
Total loans	836,668	278,124	1,114,792

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

31 December 2017	Cash loans	Non-cash loans	Total
Financial institutions	33,150	669,015	702,165
Electric production and supply	264,257	55,005	319,262
Holding companies	136,777	3,180	139,957
Other commercial services	103,871	14,466	118,337
Public works and civil engineering	70,632	36,291	106,923
Building contractor (general and special trade)	59,562	18,419	77,981
Food, beverage and tobacco industries	71,853	989	72,842
Transportation	70,251	113	70,364
Personal other services	4,025	39,180	43,205
Metal and by-products	4,327	34,236	38,563
Trade	-	36,823	36,823
Electrical and electronic equipment	-	13,034	13,034
Textile and clothing	11,224	30	11,254
Consumer loans	10,976	-	10,976
Machinery and equipment	564	7,012	7,576
Tourism and entertainment	-	5,480	5,480
Agriculture and forestry	1,500	-	1,500
Others	-	28,217	28,217
Total performing loans	842,969	961,490	1,804,459
Loans in arrears	58,217	-	58,217
Interest accruals	44,796	-	44,796
Provision for possible loan losses	(17,275)	-	(17,275)
Total loans	928,707	961,490	1,890,197

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

Total collateralisation coverage of cash and non-cash loans are 94% as at 30 September 2018 (31 December 2017 – 65%).

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

	30 September 2018	31 December 2017
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	113,439	46,777
Unsecured	11,453	11,440
Total	124,892	58,217
Cash loans (including financial lease receivables) except loan in arrears		
Secured by assignment and cheques	312,059	347,731
Secured by mortgages	305,221	317,437
Secured by pledge	126,197	89,230
Secured by guarantee	19,508	112,277
Secured by cash	8,358	8,166
Unsecured	5,896	12,924
Total	777,239	887,765
Non-cash loans		
Secured by guarantee	163,949	296,421
Unsecured	57,556	637,439
Secured by assignment and cheques	42,331	13,659
Secured by mortgages	9,219	1,657
Secured by pledge	4,865	469
Secured by cash	204	11,845
Total	278,124	961,490

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12. Financial risk management (continued)

Liquidity risk

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

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

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

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

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

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

30 September 2018	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other money market deposits	18,765	18,765	-	18,765	-	-	-	-
Funds borrowed	688,796	729,602	-	22,344	21,874	355,572	192,323	137,489
Debt securities issued	118,800	120,070	-	120,069	1	-	-	-
Current account of loan customers ⁽¹⁾	26,029	26,029	-	24,377	-	-	1,652	-
	852,390	894,466	-	185,555	21,875	355,572	193,975	137,489

⁽¹⁾ Included in other liabilities.

31 December 2017	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other money market deposits	30,177	30,177	-	30,177	-	-	-	-
Funds borrowed	339,028	387,007	-	21,948	19,926	107,939	127,119	110,075
Debt securities issued	637,743	685,989	-	50,027	635,962	-	-	-
Current account of loan customers ⁽¹⁾	32,532	32,532	-	25,747	5,505	-	1,280	-
	1,039,480	1,135,705	-	127,899	661,393	107,939	128,399	110,075

⁽¹⁾ Included in other liabilities.

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12. Financial risk management (continued)

Liquidity risk (continued)

30 September 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	2,037	-	-	-	-	-	2,037
Forward sale contracts	2,044	-	-	-	-	-	2,044
Currency swap purchases	91,876	64,104	160,741	43,441	-	-	360,162
Currency swap sales	100,339	68,875	171,921	44,330	-	-	385,465
Interest rate cap/floor purchase contracts	-	-	-	-	-	174,714	174,714
	196,296	132,979	332,662	87,771	-	174,714	924,422

31 December 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	1,756	193	1	-	-	-	1,950
Forward sale contracts	1,764	194	1	-	-	-	1,959
Currency swap purchases	195,636	83,309	1,356	361	-	-	280,662
Currency swap sales	68,624	82,492	1,363	305	-	-	152,784
Interest rate cap/floor purchase contracts	-	-	-	5,239	-	109,490	114,729
	267,780	166,188	2,721	5,905	-	109,490	552,084

Market risk

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

The interest rate and exchange rate risks of the financial positions taken by the Bank related to financial position and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to value at risk (VaR) is taken into consideration by the standard method. As at 30 September 2018, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 255 (31 December 2017 – TL 345) 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:

30 September 2018	USD	EUR	CHF	Others	Total
Assets					
Due from banks and financial institutions	71,568	834	70	115	72,587
Fair value through comprehensive income	5,796	-	-	-	5,796
Reserve deposits at central Banks	87,165	-	-	-	87,165
Loans and finance lease receivables ⁽¹⁾	535,795	202,328	611	-	738,734
Other assets	35,271	44	-	-	35,315
Total assets	735,595	203,206	681	115	939,597
Liabilities					
Trading liabilities	211	-	-	-	211
Funds borrowed	335,204	342,501	-	-	677,705
Other liabilities	12,773	9,428	-	-	22,201
Total liabilities	348,188	351,929	-	-	700,117
Gross exposure	387,407	(148,723)	681	115	239,480
Off-balance sheet position					
Net notional amount of derivatives	(382,840)	149,482	(588)	-	(233,946)
Net exposure	4,567	759	93	115	5,534
31 December 2017	USD	EUR	CHF	Others	Total
Assets					
Due from banks and financial institutions	3,203	542	139	258	4,142
Reserve deposits at central Banks	68,944	-	-	-	68,944
Loans and finance lease receivables	477,750	248,328	646	51	726,775
Other assets	3,141	-	-	-	3,141
Total assets	553,038	248,870	785	309	803,002
Liabilities					
Funds borrowed	35,484	303,285	-	-	338,769
Debt securities issued	533,459	-	-	-	533,459
Other liabilities	17,415	9,950	1	-	27,366
Total liabilities	586,358	313,235	1	-	899,594
Gross exposure	(33,320)	(64,365)	784	309	(96,592)
Off-balance sheet position					
Net notional amount of derivatives	36,354	64,310	(675)	(305)	99,684
Net exposure	3,034	(55)	109	4	3,092

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Currency risk (continued)

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 30 September 2018 and 31 December 2017 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	30 September 2018		31 December 2017	
	Equity	Profit or loss	Equity	Profit or loss
USD	457	457	13,201	13,201
EUR	76	76	(5)	(5)
Other currencies	21	21	472	472
Total	554	554	13,668	13,668

Cash flow and fair value interest rate risk

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

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

30 September 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
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	1,194	1,194
Due from banks and financial institutions	70,710	-	-	-	-	-	-	-	-	7,750	78,460
Interbank and other money market placements	5,026	-	-	-	-	-	-	-	-	-	5,026
Reserve deposits at central banks	106,148	-	-	-	-	-	-	-	-	2,986	109,134
Trading assets	643	3,568	5,841	-	-	-	-	-	-	-	10,052
Investment securities	9,958	2,417	45,025	-	-	-	-	-	-	-	57,400
Loan securities	15,788	-	3,855	-	-	-	-	-	-	-	19,643
Loans and finance lease receivables	39,152	100,263	103,283	65,565	67,136	122,393	32,650	32,024	214,773	59,429	836,668
Other assets	-	-	-	-	-	-	-	-	-	117,828	117,828
Total assets	247,425	106,248	158,004	65,565	67,136	122,393	32,650	32,024	214,773	189,187	1,235,405
Liabilities											
Other money market deposits	18,765	-	-	-	-	-	-	-	-	-	18,765
Funds borrowed	286,972	21,215	56,399	27,004	41,830	41,830	41,830	41,830	129,886	-	688,796
Trading liabilities	8,955	5,637	15,926	98	-	-	-	-	-	-	30,616
Debt securities issued	118,800	-	-	-	-	-	-	-	-	-	118,800
Other liabilities ⁽¹⁾	9,370	-	-	-	-	1,652	-	-	-	34,335	45,357
Total liabilities	442,862	26,852	72,325	27,102	41,830	43,482	41,830	41,830	129,886	34,335	902,334
Financial position interest sensitivity gap	(195,437)	79,396	85,679	38,463	25,306	78,911	(9,180)	(9,806)	84,887	154,852	333,071
Off-balance sheet interest sensitivity gap, net	-	-	-	-	-	-	-	-	-	-	-
Total interest sensitivity gap	(195,437)	79,396	85,679	38,463	25,306	78,911	(9,180)	(9,806)	84,887	154,852	333,071

⁽¹⁾ Other liabilities comprise other liabilities and provisions.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

12. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

31 December 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	6	6
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	9,643	9,643
Interbank and other money market placements	229,487	6,258	-	-	-	-	-	-	-	-	235,745
Reserve deposits at central banks	35,489	-	-	-	-	-	-	-	-	34,023	69,512
Trading assets	663	4,511	321	56	-	-	-	1,267	668	-	7,486
Investment securities	4,593	2,397	4,242	-	1,015	7,277	22,709	10,230	8,023	-	60,486
Loaned securities	133	182	701	-	-	7,521	1,864	-	3,777	-	14,178
Loans and finance lease receivables	133,965	101,133	55,347	67,464	133,704	73,576	93,537	36,337	201,171	32,473	928,707
Other assets	2,043	-	25,793	2,207	-	-	-	-	-	77,230	107,273
Total assets	406,373	114,481	86,404	69,727	134,719	88,374	118,110	47,834	213,639	153,375	1,433,036
Liabilities											
Other money market deposits	30,177	-	-	-	-	-	-	-	-	-	30,177
Funds borrowed	5,122	19,739	63,177	39,197	27,176	27,176	27,176	27,176	103,089	-	339,028
Debt securities issued	49,830	587,913	-	-	-	-	-	-	-	-	637,743
Trading liabilities	2,099	2,327	-	-	-	-	-	-	-	-	4,426
Other liabilities	12,667	13,199	-	-	-	-	1,280	-	-	27,932	55,078
Total liabilities	99,895	623,178	63,177	39,197	27,176	27,176	28,456	27,176	103,089	27,932	1,066,452
Financial position interest sensitivity gap	306,478	(508,697)	23,227	30,530	107,543	61,198	89,654	20,658	110,550	125,443	366,584
Off-balance sheet interest sensitivity gap, net	-	-	-	-	-	-	-	-	-	-	-
Total interest sensitivity gap	306,478	(508,697)	23,227	30,530	107,543	61,198	89,654	20,658	110,550	125,443	366,584

⁽¹⁾ Other liabilities comprise other liabilities and provisions.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)**

As at 30 September 2018 and 31 December 2017, the effective interest rate applied on balance sheet items summarised as follows:

30 September 2018 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	7.59	2.20	-	-	-	-
Interbank and other money market placements	31.81	-	-	-	-	-
Fair value through other comprehensive income	7.01	-	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	20.13	7.66	4.93	-	-	-
- Retail loans	18.55	-	-	7.30	-	-
Other money market deposits	-	-	-	-	-	-
Funds borrowed and debt securities issued	19.32	8.69	2.84	3.73	-	-
Current account of loan customers ⁽¹⁾	14.47	2.00	-	-	-	-
31 December 2017 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	11.02	0.51	-	-	-	-
Interbank and other money market placements	14.99	-	-	-	-	-
Marketable securities (Investment and trading)	13.95	5.00	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	17.95	7.51	5.67	-	-	-
- Retail loans	18.52	9.84	-	7.58	8.85	11.53
Other money market deposits	8.97	-	-	-	-	-
Funds borrowed and debt securities issued	14.36	3.71	3.45	-	-	-
Current account of loan customers ⁽¹⁾	7.68	5.75	-	-	-	-

⁽¹⁾Included in other liabilities.

Internal capital adequacy assessment process

Within the risk management framework of the Bank, a comprehensive internal capital adequacy assessment process (“ICAAP”) is performed 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 period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)****Exposure to interest rate risk – non-trading portfolios**

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

	30 September 2018	31 December 2017
Change at portfolio value/Total equity (%)		
Local TL interest rate		
+500 bps	(0.40)	(1.01)
-400 bps	0.64	1.65
Foreign currency interest rate		
+200 bps EUR	4.42	2.73
-200 bps EUR	(0.98)	(0.53)
+200 bps USD	(6.64)	(5.20)
-200 bps USD	7.41	5.93

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The regulatory capital and the capital adequacy ratio declared by the Group as 30 September 2018 and 31 December 2017 is as follows:

	30 September 2018	31 December 2017
Amount subject to credit risk (I)	1,059,985	1,185,381
Amount subject to market risk (II)	494,843	487,500
Amount subject to operational risk (III)	71,057	101,181
Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)	1,625,885	1,774,062
Capital for the purpose of calculating the capital adequacy ratio	349,158	342,116
Capital adequacy ratio	29.83%	25.81%

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***13. Fair value of financial and non-financial instruments****Valuation of assets measured at fair value**

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

30 September 2018	Level 1	Level 2	Level 3	Total
<i>Non-financial instruments</i>				
Investment property	-	-	58,279	58,279
<i>Financial instruments</i>				
Trading assets	4,198	5,854	-	10,052
Investment and loaned securities	77,043	-	-	77,043
	81,241	5,854	58,279	145,374
<i>Financial instruments</i>				
Trading liabilities	-	30,616	-	30,616
	-	30,616	-	30,616
31 December 2017	Level 1	Level 2	Level 3	Total
<i>Non-financial instruments</i>				
Investment property	-	-	58,279	58,279
<i>Financial instruments</i>				
Trading assets	2,298	5,188	-	7,486
Investment and loaned securities	74,664	-	-	74,664
	76,962	5,188	58,279	140,429
<i>Financial instruments</i>				
Trading liabilities	-	4,426	-	4,426
	-	4,426	-	4,426

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***14. Operating segments**

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

30 September 2018	Asset management and treasury	Corporate banking	Retail banking	Non-financial services	Total
Interest income	36,447	54,066	351	517	91,381
Interest expense	(50,630)	(937)	-	-	(51,567)
Internal transfer rate income/(expense)	41,451	(41,069)	(382)	-	-
Net interest income	27,268	12,060	(31)	517	39,814
Net fee and commission income / (expense)	(247)	6,237	(6)	-	5,984
Net trading income and foreign exchange gain, net	4,412	1,672	37	13	6,134
Other operating income	166	1,338	-	360	1,864
Total operating income	31,599	21,307	-	890	53,796
Net impairment loss on financial and non-financial assets	111	(30,196)	168	-	(29,917)
Total operating expenses	(19,088)	(19,552)	(397)	(680)	(39,717)
Profit / (loss) before income tax	12,622	(28,441)	(229)	210	(15,838)
Income tax	(3,612)	6,788	55	549	3,780
Net profit/(loss) for the period	9,010	(21,653)	(174)	759	(12,058)
Total assets	359,325	866,921	2,524	6,635	1,235,405
Total liabilities	873,252	28,732	118	232	902,334

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the period ended 30 September 2018***(Currency - In thousands of Turkish Lira)***14. Operating segments (continued)**

30 September 2017	Headquarter and treasury	Corporate banking	Retail banking	Non-financial services	Total
Interest income	13,544	66,038	1,350	469	81,401
Interest expense	(49,677)	(910)	-	-	(50,587)
Internal transfer rate income/(expense)	51,912	(53,657)	1,745	-	-
Net interest income	15,779	11,471	3,095	469	30,814
Net fee and commission income / (expense)	(953)	3,927	(120)	-	2,854
Net trading income and foreign exchange gain, net	827	(36)	55	14	860
Other operating income	695	(3,605)	3,745	428	1,263
Total operating income	16,348	11,757	6,775	911	35,791
Net impairment loss on financial and non-financial assets	487	4,275	160	-	4,922
Total operating expenses	(17,865)	(11,629)	(4,765)	(792)	(35,051)
Profit / (loss) before income tax	(1,030)	4,403	2,170	119	5,662
Income tax	(1,113)	-	-	161	(952)
Net profit/(loss) for the period	(2,143)	4,403	2,170	280	4,710
Total assets	295,611	1,114,254	16,726	6,445	1,433,036
Total liabilities	997,727	67,433	1,099	193	1,066,452

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 30 September 2018

(Currency - In thousands of Turkish Lira)

15. Rating

As at 30 September 2018, the Bank's ratings assigned by international rating agency, Fitch Ratings is as follows:

Fitch Ratings, September 2018

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

16. Subsequent and other events

None.