

**Bankpozitif Kredi ve Kalkınma
Bankası Anonim Şirketi**

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

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

TABLE OF CONTENTS

	Page
Independent auditors' report on review of condensed consolidated interim financial information	
Condensed consolidated interim statement of financial position	1
Condensed consolidated interim statement of profit or loss	2
Condensed consolidated interim statement of profit or loss and other comprehensive income	3
Condensed consolidated interim statement of changes in equity	4
Condensed consolidated interim statement of cash flows	5
Notes to the condensed consolidated interim financial information	6 – 37



KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

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

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

Introduction

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

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

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Emphasis of Matter

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

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

Orhan Akova
Partner

4 November 2019
İstanbul, Turkey

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

		Reviewed	Audited
	<i>Note</i>	30 September 2019	31 December 2018
ASSETS			
Cash and balances with central banks		8	2,602
Due from banks and financial institutions		14,590	2,181
Interbank and other money market placements		4,002	-
Reserve deposits at central banks		64,314	72,466
Trading assets		9,201	13,092
Investment securities		72,060	87,517
Loaned securities		17,296	593
Loans and finance lease receivables	3	630,928	722,976
Tangible assets		9,830	2,417
Intangible assets		5,706	6,239
Deferred tax assets	4	3,799	2,164
Investment property	5	46,279	46,279
Other assets		15,618	12,815
Total assets		893,631	971,341
LIABILITIES			
Other money market deposits		20,117	590
Trading liabilities		11,220	6,775
Funds borrowed	6	494,114	613,380
Other liabilities	7	38,906	28,604
Provisions		17,151	11,640
Total liabilities		581,508	660,989
EQUITY			
Share capital and share premium	8	379,114	379,114
Legal reserves		16,168	16,168
Fair value reserve of debt instruments at fair value through other comprehensive income (FVOCI), net of tax	8	8,427	9,521
Accumulated losses		(91,586)	(94,451)
Total equity		312,123	310,352
Total equity and liabilities		893,631	971,341

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss****For the three month and nine-month periods ended 30 September 2019***(Currency - In thousands of Turkish Lira)*

	Reviewed 1 January– 30 September 2019	Reviewed 1 July– 30 September 2019	Reviewed 1 January– 30 September 2018	Reviewed 1 July–30 September 2018
Continuing operations				
Interest income				
Interest income on loans and finance leases	52,367	15,243	55,615	20,078
Interest income on deposits with other banks and financial institutions	1,936	636	3,241	1,180
Interest income on investment securities	7,490	2,545	4,474	1,664
Interest income on interbank and other money market placements	410	117	4,179	408
Other interest income	16,128	5,839	23,872	11,775
Total interest income	78,331	24,380	91,381	35,105
Interest expense				
Interest expense on other money market deposits	(3,462)	(1,739)	(1,315)	(720)
Interest expense on funds borrowed	(20,875)	(5,899)	(24,097)	(11,529)
Interest expense on debt securities issued	-	-	(19,680)	(5,776)
Other interest expense	(7,889)	(2,964)	(6,475)	(2,292)
Total interest expense	(32,226)	(10,602)	(51,567)	(20,317)
Net interest income	46,105	13,778	39,814	14,788
Fees and commission income	4,557	1,679	6,541	1,509
Fees and commission expense	(247)	(77)	(557)	(259)
Net fee and commission income	4,310	1,602	5,984	1,250
Net trading income and foreign exchange gain, net	878	555	6,134	3,361
Other operating income	1,837	1,241	1,864	1,423
Total operating income	53,130	17,176	53,796	20,822
Net impairment/(loss) reversal on financial assets	(13,393)	(3,423)	(29,917)	(27,029)
Personnel expenses	(17,084)	(5,400)	(17,617)	(5,692)
Depreciation and amortisation	(2,806)	(1,001)	(1,688)	(538)
Administrative expenses	(14,787)	(4,888)	(15,767)	(5,702)
Other expenses	(2,810)	(1,276)	(4,645)	(1,085)
Total operating expenses	(37,487)	(12,565)	(39,717)	(13,017)
Profit/(loss) before income tax	2,250	1,188	(15,838)	(19,224)
Income tax	1,250	1,416	3,780	4,221
Profit/(loss) for the period	3,500	2,604	(12,058)	(15,003)

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the three month and nine-month periods ended 30 September 2019***(Currency - In thousands of Turkish Lira)*

	Reviewed	Reviewed	Reviewed	Reviewed
	1 January–	1 July–	1 January–	1 July–
	30 September	30 September	30 September	30 September
	2019	2019	2018	2018
Profit for the period	3,500	2,604	(12,058)	(15,003)
Other comprehensive income				
<i>Items that will never be reclassified to profit or loss</i>				
Remeasurement of employee termination benefits	(813)	(189)	(1,544)	(678)
Related tax	178	41	309	150
	(635)	(148)	(1,235)	(528)
<i>Items that are or may be reclassified to profit or loss</i>				
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI)	(2,887)	1,535	1,384	1,290
Net amount reclassified to the income statement on sale of debt instruments at FVOCI	1,465	(191)	(154)	(271)
Related tax	328	(247)	(273)	(204)
	(1,094)	1,097	957	815
Other comprehensive income for the period, net of income tax	(1,729)	949	(278)	287
Total comprehensive income for the period	1,771	3,553	(12,336)	(14,716)

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

		Reviewed	Reviewed
	<i>Note</i>	1 January – 30 September 2019	1 January – 30 September 2018
Cash flows from operating activities			
Interest received		67,782	90,565
Interest paid		(32,032)	(51,284)
Fees and commissions received		4,246	5,339
Fees and commissions paid		(247)	(557)
Trading income		3,117	3,026
Recoveries from non-performing loans	3	1,412	11,735
Cash payments to employees and other parties		(16,624)	(16,118)
Cash received from other operating activities		1,837	1,864
Cash paid to other operating activities		(19,090)	(1,840)
		10,401	42,730
Change in trading assets		3,662	1,605
Change in reserve deposits at central banks		7,920	(39,390)
Change in loans and finance lease receivables		83,377	122,329
Change in other assets		(2,889)	(8,273)
Change in interbank and other money market deposits		19,488	(11,411)
Change in other liabilities		(1,206)	(11,859)
Net cash from operating activities		120,753	95,731
Cash flows from investing activities			
Purchases of investment securities		(11,787)	(25,301)
Proceeds from sale and redemption of investment securities		17,837	26,718
Purchases of tangible assets		-	(767)
Proceeds from the sale of premises and equipment		-	7
Purchases of intangible assets		(69)	(29)
Net cash provided by in investing activities		5,981	628
Cash flows from financing activities			
Proceeds from funds borrowed	6	993,394	1,207,044
Repayment of funds borrowed	6	(1,112,153)	(983,289)
Proceeds from debt securities issued		-	117,654
Repayment of debt securities issued		-	(627,124)
Payments due to financial lease liabilities		(1,438)	-
Net cash used in financing activities		(120,197)	(285,715)
Effect of net foreign exchange difference on cash and cash equivalents		7,275	28,590
Net increase/(decrease) in cash and cash equivalents		13,812	(160,766)
Cash and cash equivalents at 1 January		4,783	245,394
Cash and cash equivalents at 30 September		18,595	84,628

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 nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

Notes to the condensed consolidated interim financial information		Pages
Note 1	Corporate information	7
Note 2	Basis of preparation	8
Note 3	Loans and finance lease receivables	12
Note 4	Taxation	13
Note 5	Investment property	14
Note 6	Funds borrowed	14
Note 7	Other Liabilities	15
Note 8	Capital and reserves	16
Note 9	Related parties	16
Note 10	Commitment and contingencies	18
Note 11	Financial risk management	19
Note 12	Fair value of financial and non-financial instruments	34
Note 13	Operating segments	35
Note 14	Rating	37
Note 15	Subsequent and other events	37

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

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

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

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

As at 30 September 2019, 69.83% (31 December 2018 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2018 – 30.17%) of the shares belong to C Faktoring A.Ş.

The registered head office address of the Bank is located at Rüzgarlıbahçe Mah. Kumlu Sok. No: 3 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 nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

1. Corporate information (continued)

Nature of activities of the Bank / Group

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

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

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

As at 30 September 2019, the Bank provides services through its head office. As at 30 September 2019, the number of employees for the Bank and its consolidated subsidiaries are 58 and 2, respectively (31 December 2018 – 63 and 2).

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

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 30 September 2019 and 31 December 2018 are as follows:

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

2. Basis of preparation

2.1 Statement of compliance

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with annual consolidated financial statements.

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

2. Basis of preparation (continued)

2.2 Basis of measurement

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

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

2.3 Changes in accounting policies

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

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

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

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

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

Transition disclosures of IFRS 16

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

2.3 Changes in accounting policies(continued)

Financial lease

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

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

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

Leases

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

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

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

2.4 Use of estimates and judgements

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

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

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

Key sources of estimation uncertainty

Income taxes

The Group is subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 30 September 2019, the Group does not have any net current tax liabilities (31 December 2018– None).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly. As at 30 September 2019, the Group carries a net deferred tax assets amounting to TL 3,799 (31 December 2018 – TL 2,164 deferred tax assets).

Deferred tax assets have not been recognised in respect of the remaining tax losses amounting to TL 83,495, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom (31 December 2018 – TL 79,694).

Employee termination benefits

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The carrying value of employee termination benefit provisions as at 30 September 2019 is TL 4,286 (31 December 2018 – TL 3,392).

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

Measurement of fair values

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the nine-month period ended 30 September 2019***(Currency - In thousands of Turkish Lira)***2.4 Use of estimates and judgements (continued)**

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

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

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

3. Loans and finance lease receivables

30 September 2019	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	9,627	540,437	-	550,064
Stage 1	9,627	306,879	-	316,506
Stage 2	-	233,558	-	233,558
Consumer loans	242	-	354	596
Stage 1	185	-	354	539
Stage 2	57	-	-	57
Total loans and finance lease receivables	9,869	540,437	354	550,660
Loans and finance lease receivables in arrears	161,955	-	-	161,955
Less: 12 month ECL (stage 1)	(1,507)	-	-	(1,507)
Less: Lifetime ECL significant increase in credit risk (stage 2)	(2,688)	-	-	(2,688)
Less: Lifetime ECL impaired credits (stage 3)	(77,492)	-	-	(77,492)
	90,137	540,437	354	630,928
31 December 2018	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	36,597	633,486	-	670,083
Stage 1	15,297	475,454	-	490,751
Stage 2	21,300	158,032	-	179,332
Consumer loans	698	-	435	1,133
Stage 1	603	-	435	1,038
Stage 2	95	-	-	95
Total loans and finance lease receivables	37,295	633,486	435	671,216
Loans and finance lease receivables in arrears	126,563	-	-	126,563
Less: 12 month ECL (stage 1)	(3,151)	-	-	(3,151)
Less: Lifetime ECL significant increase in credit risk (stage 2)	(9,492)	-	-	(9,492)
Less: Lifetime ECL impaired credits (stage 3)	(62,160)	-	-	(62,160)
	89,055	633,486	435	722,976

As at 30 September 2019, loans and finance lease receivables with floating rates are TL 95,766 (31 December 2018 – TL 172,882) and fixed interest rates are TL 405,355 (31 December 2018 – TL 498,334).

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

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

	30 September 2019	31 December 2018
Non-performing loans and finance lease receivables at 1 January	126,563	58,217
Additions to non-performing loans and finance lease receivables	36,804	82,494
Recoveries	(1,412)	(12,376)
Write-offs	-	(1,772)
Non-performing loans and finance lease receivables at the end of period	161,955	126,563

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

	30 September 2019	31 December 2018
Reserve at the beginning of the year	74,803	17,275
IFRS 9 transition impact	-	17,046
Provision net of recoveries	13,393	38,797
- <i>Credit loss expense on financial assets</i>	<i>13,883</i>	<i>49,016</i>
- <i>Recoveries</i>	<i>(490)</i>	<i>(10,219)</i>
Write-offs	(6,509)	1,685
Reserve at the end of the period	81,687	74,803

4. Taxation

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

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the 25th 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 2019, TL 1,535 of deferred tax assets are recognised for TL 7,677 of tax losses of the Group (31 December 2018: TL 2,096 of deferred tax assets and TL 10,482 of tax losses), unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets have not been recognised in respect of the remaining tax losses are amounting to TL 83,495 (31 December 2018: TL 79,694).

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

	30 September 2019	31 December 2018
Deferred tax assets	3,799	2,164

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

4. Taxation (continued)

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019	30 September 2018
Profit/(loss) before income tax	2,250	(15,838)
Income tax using the domestic corporation tax rate 22%	(495)	3,484
Tax-exempt income	(5)	(135)
Recognition of previously unrecognised deductible temporary differences	1,810	(134)
Other	(60)	565
Total income tax expense in the statement of profit or loss	1,250	3,780

5. Investment property

Investment Property of the Group was valued by an independent appraiser. According to the report dated 27 February 2019 prepared by a real estate appraisal company, which is included in the list to provide valuation service by the Capital Markets Board of Turkey (“CMB”), the fair value of hotel is determined as TL 46,279 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 2019	1 January – 31 December 2018
Balance at 1 January	46,279	58,279
Additions	-	-
Change in fair value	-	(12,000)
Total	46,279	46,279

6. Funds borrowed

	30 September 2019		31 December 2018	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term⁽¹⁾				
Fixed interest	776	55,693	1,197	62,175
Floating interest	-	170,573	-	264,920
Long-term⁽¹⁾				
Fixed interest	-	267,072	-	285,088
Floating interest	-	-	-	-
Total	776	493,338	1,197	612,183

⁽¹⁾ Based on original maturities.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the nine-month period ended 30 September 2019**

(Currency - In thousands of Turkish Lira)

6. Funds borrowed (continued)

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

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

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

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

	31 December 2018	Cash items	Foreign currency conversion adjustments	Other non- cash items	30 September 2019
Funds borrowed	613,380	(126,408)	7,649	(507)	494,114
Total	613,380	(126,408)	7,649	(507)	494,114

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

7. Other liabilities

	30 September 2019	31 December 2018
Current accounts of loan customers	28,913	21,377
Lease payables	6,635	-
Collateral received for derivative transactions	-	4,140
Unearned commission income	1,364	1,768
Taxes and funds payables	819	381
Insurance payables	85	83
Others	1,091	855
Total	38,906	28,604

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

8. Capital and reserves

	30 September 2019	31 December 2018
Number of common shares , TL 0.1 (in full TL), par value (Authorized and issued)	3.372.923.500	3.372.923.500

Share capital and share premium

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

	30 September 2019		31 December 2018	
	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	
Adjustment to share capital	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 2019, financial assets measured at fair value through other comprehensive income (FVOCI) reserve is TL 8,427 (31 December 2018: TL 9,521).

9. Related parties

The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (31 December 2018 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial information, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans and finance lease receivables, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information****As of and for the nine-month period ended 30 September 2019***(Currency - In thousands of Turkish Lira)***9. Related parties (continued)**

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

	Shareholders		Directors and key management personnel		Others	
	2019	2018	2019	2018	2019	2018
	Funds borrowed					
At 1 January	264,920	-	-	-	5,401	7,593
At end of the period/year	170,573	264,920	-	-	11,614	5,401
Interest expense ⁽¹⁾	(9,102)	(15,940)	-	-	(432)	(505)

⁽¹⁾ Interest expense in the above tables for 2019 represents the balances as of 30 September 2019.

Other balances with related parties:

Related party		Deposits	Other liabilities	Non-cash loans	Other interest expense
Shareholders	30 September 2019	-	3	3,531	-
	31 December 2018	-	3	3,284	-
Directors and key management personnel	30 September 2019	-	-	-	-
	31 December 2018	-	27	-	-
Others	30 September 2019	-	6,785	6	-
	31 December 2018	-	566	6	-

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 6,363 (30 September 2018 – TL 7,356) comprising salaries and other benefits.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

10. Commitments and contingencies

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

	30 September 2019	31 December 2018
Letters of guarantee	173,164	220,436
Commitments	-	3,042
Other guarantees	16,810	17,877
Loss allowances (amounts arising from ECL)	(9,373)	(2,958)
Total non-cash loans (net)	180,601	238,397

The counterpart of the Debt Liquidation and Right of Repurchase Agreement entered into by and between Gaziantep Çağlar and the Bank that was being kept in the land register was falsified by forgery of documents. With such forged document, it was irregularly made the subject of the execution proceeding with judgment for TL 48,378 in the Gaziantep 13th Execution Office. This falsified document was unlawfully used in an enforcement proceeding with judgement. The Bank initiated the following three legal procedures regarding this fraud:

1. The Bank filed a complaint to the Enforcement Court of Gaziantep against the proceeding filed against the Bank claiming that the underlying document for the proceeding had not been appropriate for the said enforcement proceeding with judgement and the irregularities had occurred during proceeding filing transactions. The court accepted the Bank's objections and ruled for the cancellation of the proceeding. The Provisional Appeal Court and the Supreme Court of Appeals ratified the decision, and the decision to cancel the enforcement proceedings has been finalized.
2. Upon the rescission of the injunction decision taken by the Civil Court of Enforcement, the Bank filed another negative declaratory action before the Gaziantep Commercial Court of First Instance in order to re-stop the ongoing proceeding, and the Court dismissed the action. The justified decision did not clearly state as to why the action had been rejected, it only stated that the decision had been taken based on two Supreme Court decisions, both of which were used as examples but in fact they were not related to the subject matter of the action filed by the Bank. The Bank applied to the Provisional Appeal Court (the 1st degree appeal) against this decision. The Provisional Appeal Court did not review the action on merit due to the fact that the evidence indicated in the case file had not been gathered and accepted the appeal request, ruled on revoking the Local Court's decision and decided to send the case file back to the local court for it to be re-reviewed. After the Provisional Appeal Court's decision, the litigation is still ongoing and the court decided to wait for the finalization of the decision rendered by the Aggravated Felony Court and postponed the hearing to be held on 25 March 2020.
3. The Bank filed a complaint with the Office of the Chief Public Prosecutor of Gaziantep about the persons attempted in fraud. At the end of the proceedings, all criminal files have been merged into a single Aggravated Felony Court file. The Court ruled that some defendants should be sentenced for crimes such as Aggravated Fraud, Forgery on Special Documents and Wrongful Conduct. The Court has already written its justified decision and the Public Prosecutor's Office and the Bank appealed the decision with the request that the related accuseds should be sentenced to heavier punishments.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management

Strategy in using financial instruments

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

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

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

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

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

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management (continued)

Strategy in using financial instruments (continued)

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

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

- to define the risk policy of the Group, including that of all its subsidiaries, regarding exposure to various risks (credit risks, market risks, operational risks),
- to manage and guide all the activities of internal systems directly/through committees,
- to approve new business lines, products or activities that would have a substantial effect on activities of the Group.

The Group manages its exposure to all types of risks through the asset and liability management committee (“ALCO”) and executive committee, set by Board of Directors and comprising members of senior management, and a representative of main shareholder (board member/consultant of Board of Directors nominated by Bank Hapoalim) and also through limits set on the credit, treasury and asset liability management activities of the Group. These limits are approved and quarterly reviewed by Board of Directors and ALCO and executive committee supervise the compliance with the limits.

Permanent learning program for the Board of Directors is in place from the beginning of 2011 including the subjects risk management, corporate governance in general and corporate governance in the financial sector, Basel II and Basel III reporting standards (IFRS and BRSA) and audit.

In summary, in order not to be exposed to liquidity, interest rate and foreign currency risk, the Group aims to keep its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Group does not prefer to take speculative positions on currency, interest rate and maturity that might create risk to the Group due to changes in the prices or mismatch of assets and liabilities.

Credit risk

Credit risk refers to the risk that a contractual partner defaults on its contractual obligations or does not deliver in full accordance with the conditions of contract,

As the focus of BankPozitif is defined as credit activities, credits are the most significant part of its activities and thus managed meticulously. BankPozitif follows a strict credit policy which is reviewed and approved by Board of Directors at certain intervals and whenever necessary. The process for approving, amending and renewing is clearly regulated together with collateral requirements. All facilities are assessed prior to approval via a series of evaluation meetings to ensure that the strict criteria laid out in the Group is adhered to regarding the issues like sector, sub-sector, collateral, maturity, project type etc.,

To avoid the default risks to the best possible extent, the Group applies a well-defined “credit allocation process” and afterwards monitoring of the portfolio is being executed using a number of precautionary actions by relevant functions.

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

30 September 2019	Loans and finance lease receivables	Due from banks and financial institutions	Investment securities and loaned securities	Non cash loans
<i>Carrying amount</i>				
Stage 1	317,045	14,685	89,261	189,974
Stage 2	233,615	-	-	-
Stage 3	161,955	-	-	-
<i>Allowance for impairment</i>				
- 12 month ECL (stage 1)	(1,507)	(95)	(65)	(2,214)
- Lifetime ECL significant increase in credit risk (stage 2)	(2,688)	-	-	(7,159)
- Lifetime ECL impaired credits (stage 3)	(77,492)	-	-	-
	630,928	14,590	89,196	180,601
31 December 2018	Loans and finance lease receivables	Due from banks and financial institutions	Investment securities and loaned securities	Non cash loans
<i>Carrying amount</i>				
Stage 1	491,789	2,190	88,183	241,355
Stage 2	179,427	-	-	-
Stage 3	126,563	-	-	-
<i>Allowance for impairment</i>				
- 12 month ECL (stage 1)	(3,151)	(9)	(73)	(2,399)
- Lifetime ECL significant increase in credit risk (stage 2)	(9,492)	-	-	(559)
- Lifetime ECL impaired credits (stage 3)	(62,160)	-	-	-
	722,976	2,181	88,110	238,397

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

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

Bankpozitif manages its credit portfolio as per following main principles;

Creating credit risk awareness throughout the Group

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management (continued)

Credit risk (continued)

Having a reliable credit allocation function

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

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

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

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

Risk limits

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

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

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

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

As at 30 September 2019, the share of the Group’s loan to its top 20 credit customers in its total loan portfolio is 99% (31 December 2018 – 98%).

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

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

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.

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

Central tendency factor is calculated by correlating sectoral non-performing loans ratios of banking sector to Group values. Both rating systems are being used in credit decisions, the first one giving the indications for borrower's repayment capacity, while the second one for facility's repayment capacity. Requirement of facility rating of BB or higher for the new credit clients is the main principle. Regarding retail business, decision trees developed internally (and validated by Experian Scorex) are being used to evaluate retail applicants. G3 scores of Credit Bureau is used in the classification of retail customers.

Monitoring the risk

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

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

30 September 2019	Cash loans	Non-cash loans	Total
Electric production and supply	160,696	17,157	177,853
Other commercial services	123,785	-	123,785
Other financial institutions	-	33,531	33,531
Holding companies	70,805	4,335	75,140
Food, beverage and tobacco industries	67,938	4	67,942
Public works and civil engineering	48,521	14,455	62,976
Building contractor (general and special trade)	29,088	22,162	51,250
Personal other services	-	42,487	42,487
Transportation	39,616	170	39,786
Machinery and equipment	-	22,751	22,751
Electrical and electronic equipment	-	13,203	13,203
Consumer loans	4,011	-	4,011
Metal and by-products	-	-	-
Trade	-	1,927	1,927
Textile and clothing	-	30	30
Others	-	17,762	17,762
Total performing loans	544,460	189,974	734,434
Loans in arrears	168,155	-	168,155
Loss allowances (amounts arising from ECL)	(81,687)	(9,373)	(91,060)
Total loans	630,928	180,601	811,529

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

31 December 2018	Cash loans	Non-cash loans	Total
Electric production and supply	238,455	15,338	253,793
Other commercial services	126,188	-	126,188
Other financial institutions	-	58,354	58,354
Holding companies	77,948	6	77,954
Food, beverage and tobacco industries	79,458	4	79,462
Public works and civil engineering	46,685	2,100	48,785
Building contractor (general and special trade)	39,678	91,187	130,865
Personal other services	2,575	23,554	26,129
Transportation	40,430	-	40,430
Machinery and equipment	-	23,497	23,497
Electrical and electronic equipment	-	10,220	10,220
Consumer loans	1,133	-	1,133
Metal and by-products	-	53	53
Trade	-	13,675	13,675
Textile and clothing	796	30	826
Others	6,870	3,337	10,207
Total performing loans	660,216	241,355	901,571
Loans in arrears	137,563	-	137,563
Loss allowances (amounts arising from ECL)	(74,803)	(2,958)	(77,761)
Total loans	722,976	238,397	961,373

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

Total collateralisation coverage of cash and non-cash loans are 93% as at 30 September 2019 (31 December 2018 – 94%).

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

	30 September 2019	31 December 2018
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	150,403	116,055
Secured by guarantee	10,329	9,719
Unsecured	1,223	789
Total	161,955	126,563
Cash loans (including financial lease receivables) except loan in arrears		
Secured by mortgages	190,402	271,364
Secured by assignment and cheques	196,983	266,595
Secured by pledge	100,189	109,316
Secured by guarantee	59,165	15,297
Secured by cash	3,718	7,267
Unsecured	203	1,377
Total	550,660	671,216
Non-cash loans		
Secured by guarantee	103,475	151,076
Unsecured	65,166	53,000
Secured by assignment and cheques	16,810	32,877
Secured by pledge	4,329	4,220
Secured by cash	194	182
Total	189,974	241,355

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management (continued)

Liquidity risk

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

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

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

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

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

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

30 September 2019	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	20,117	20,117	-	20,117	-	-	-	-
Funds borrowed	494,114	520,392	-	199,041	41,737	30,577	166,627	82,410
Current account of loan customers ⁽¹⁾	28,912	29,056	-	27,321	1,735	-	-	-
	543,143	569,565	-	246,479	43,472	30,577	166,627	82,410

(1) Included in other liabilities.

31 December 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	590	590	-	590	-	-	-	-
Funds borrowed	613,380	651,280	-	322,340	15,307	41,165	165,151	107,317
Current account of loan customers ⁽¹⁾	21,376	21,376	-	19,919	-	-	1,457	-
	635,346	673,246	-	342,849	15,307	41,165	166,608	107,317

(1) Included in other liabilities.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management (continued)

Liquidity risk (continued)

30 September 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	22,474	-	-	-	-	-	22,474
Forward sale contracts	21,643	-	-	-	-	-	21,643
Currency swap purchases	286,481	64,631	38,615	43,285	-	-	433,012
Currency swap sales	289,336	64,723	40,568	44,585	-	-	439,212
Interest rate cap/floor purchase contracts	-	-	-	-	-	143,046	143,046
	619,934	129,354	79,183	87,870	-	143,046	1,059,387

31 December 2018	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	370	-	-	-	-	-	370
Forward sale contracts	368	-	-	-	-	-	368
Currency swap purchases	18,870	150,018	38,103	-	-	-	206,991
Currency swap sales	18,918	150,990	39,360	-	-	-	209,268
Interest rate cap/floor purchase contracts	-	-	-	-	-	153,443	153,443
	38,526	301,008	77,463	-	-	153,443	570,440

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 2019, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 50 (31 December 2018 – TL 184) for one day.

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

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

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

Currency risk

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

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

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

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

30 September 2019	USD	EUR	Others	Total
Assets				
Due from banks and financial institutions	7,891	336	34	8,261
Financial assets held for trading	195	-	-	195
Reserve deposits at central Banks	63,683	-	-	63,683
Loans and finance lease receivables	436,530	103,907	354	540,791
Other assets	5,803	6	7	5,816
Total assets	514,102	104,249	395	618,746
Liabilities				
Trading liabilities	2,272	-	-	2,272
Funds borrowed	210,667	282,671	-	493,338
Other liabilities	3,048	18,255	-	21,303
Total liabilities	215,987	300,926	-	516,913
Gross exposure	298,115	(196,677)	395	101,833
Off-balance sheet position				
Net notional amount of derivatives	(301,322)	196,915	(284)	(104,691)
Net exposure	(3,207)	238	111	(2,858)
31 December 2018				
Assets				
Due from banks and financial institutions	1,298	452	119	1,869
Financial assets held for trading	5,859	-	-	5,859
Reserve deposits at central Banks	71,631	-	-	71,631
Loans and finance lease receivables	462,547	170,940	434	633,921
Other assets	5,078	-	-	5,078
Total assets	546,413	171,392	553	718,358
Liabilities				
Trading liabilities	2,734	-	-	2,734
Funds borrowed	327,095	285,088	-	612,183
Other liabilities	8,071	10,092	-	18,163
Total liabilities	337,900	295,180	-	633,080
Gross exposure	208,513	(123,788)	553	85,278
Off-balance sheet position				
Net notional amount of derivatives	(206,435)	124,266	(427)	(82,596)
Net exposure	2,078	478	126	2,682

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management (continued)

Currency risk (continued)

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 30 September 2019 and 31 December 2018 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	30 September 2019		31 December 2018	
	Equity	Profit or loss	Equity	Profit or loss
USD	(321)	(321)	218	218
EUR	24	24	48	48
Other currencies	11	11	13	13
Total	(286)	(286)	279	279

A 10% strengthening of the TL against the foreign currencies at 30 September 2019 and 31 December 2018 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Cash flow and fair value interest rate risk

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

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

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

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

30 September 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non- interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	8	8
Due from banks and financial institutions	6,003	-	-	-	-	-	-	-	-	8,587	14,590
Interbank and other money market placements	4,002	-	-	-	-	-	-	-	-	-	4,002
Reserve deposits at central banks	64,213	-	-	-	-	-	-	-	-	101	64,314
Trading assets	6,479	2,527	195	-	-	-	-	-	-	-	9,201
Investment securities	21,252	3,805	46,843	-	-	-	-	-	-	160	72,060
Loan securities	15,891	837	568	-	-	-	-	-	-	-	17,296
Loans and finance lease receivables	8,372	19,023	23,385	74,891	137,493	49,961	38,329	34,339	164,867	80,268	630,928
Other assets	-	-	-	-	-	-	-	-	-	81,232	81,232
Total assets	126,212	26,192	70,991	74,891	137,493	49,961	38,329	34,339	164,867	170,356	893,631
Liabilities											
Other money market deposits	20,117	-	-	-	-	-	-	-	-	-	20,117
Funds borrowed	187,815	41,406	481	-	-	-	-	-	264,412	-	494,114
Trading liabilities	6,004	1,012	3,849	355	-	-	-	-	-	-	11,220
Other liabilities ⁽¹⁾	9,232	1,754	54	105	942	716	-	-	4,797	38,457	56,057
Total liabilities	223,168	44,172	4,384	460	942	716	-	-	269,209	38,457	581,508
Financial position interest sensitivity gap	(96,956)	(17,980)	66,607	74,431	136,551	49,245	38,329	34,339	(104,342)	131,899	312,123
Off-balance sheet interest sensitivity gap, net	(2,026)	(90)	(1,952)	(1,299)	-	-	-	-	143,046	-	137,679
Total interest sensitivity gap	(98,982)	(18,070)	64,655	73,132	136,551	49,245	38,329	34,339	38,704	131,899	449,802

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

11. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

31 December 2018	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	2,602	2,602
Due from banks and financial institutions	-	-	-	-	-	-	-	-	-	2,181	2,181
Interbank and other money market placements	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at central banks	68,324	-	-	-	-	-	-	-	-	4,142	72,466
Trading assets	36	7,893	5,163	-	-	-	-	-	-	-	13,092
Investment securities	38,981	15,695	32,841	-	-	-	-	-	-	-	87,517
Loaned securities	233	-	360	-	-	-	-	-	-	-	593
Loans and finance lease receivables	31,529	170,988	17,098	48,632	59,424	100,422	27,232	29,240	186,652	51,759	722,976
Other assets	-	-	-	-	-	-	-	-	-	69,914	69,914
Total assets	139,103	194,576	55,462	48,632	59,424	100,422	27,232	29,240	186,652	130,598	971,341
Liabilities											
Other money market deposits	590	-	-	-	-	-	-	-	-	-	590
Funds borrowed	316,075	14,944	17,765	18,139	36,278	36,278	36,278	36,278	101,345	-	613,380
Trading liabilities	42	5,877	856	-	-	-	-	-	-	-	6,775
Other liabilities	8,267	-	-	-	-	1,458	-	-	-	30,519	40,244
Total liabilities	324,974	20,821	18,621	18,139	36,278	37,736	36,278	36,278	101,345	30,519	660,989
Financial position interest sensitivity gap	(185,871)	173,755	36,841	30,493	23,146	62,686	(9,046)	(7,038)	85,307	100,079	310,352
Off-balance sheet interest sensitivity gap, net	(49)	(969)	(1,257)	-	-	-	-	-	153,443	-	151,168
Total interest sensitivity gap	(185,920)	172,786	35,584	30,493	23,146	62,686	(9,046)	(7,038)	238,750	100,079	461,520

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

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

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

30 September 2019 (%)	TL	USD	EUR	CHF
Due from banks and financial institutions	-	-	-	-
Interbank and other money market placements	17.57	-	-	-
Investment securities and loaned securities	6.76	-	-	-
Loans and finance lease receivables				
- Corporate loans	26.00	7.89	4.56	-
- Retail loans	16.13	-	-	7.20
Other money market deposits	-	-	-	-
Funds borrowed	18.59	6.28	2.82	3.76
Current account of loan customers ⁽¹⁾	12.19	-	0.85	-
31 December 2018 (%)	TL	USD	EUR	CHF
Due from banks and financial institutions	13.00	2.00	-	-
Interbank and other money market placements	25.21	-	-	-
Marketable securities (Investment and trading)	7.52	-	-	-
Loans and finance lease receivables				
- Corporate loans	31.64	7.66	4.85	-
- Retail loans	18.57	-	-	7.20
Other money market deposits	-	-	-	-
Funds borrowed	17.92	7.62	2.94	3.76
Current account of loan customers ⁽¹⁾	18.86	2.00	-	-

⁽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 nine-month period ended 30 September 2019***(Currency - In thousands of Turkish Lira)***11. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)****Exposure to interest rate risk – non-trading portfolios**

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

Change at portfolio value/Total equity (%)	30 September 2019	31 December 2018
Local TL interest rate		
+500 bps	(1.07)	(0.66)
-400 bps	1.99	1.06
Foreign currency interest rate		
+200 bps EUR	3.23	3.60
-200 bps EUR	0.66	(0.34)
+200 bps USD	(5.32)	(6.16)
-200 bps USD	4.61	6.90

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its financial position assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The regulatory capital and the capital adequacy ratio declared by the Group as 30 September 2019 and 31 December 2018 is as follows:

	30 September 2019	31 December 2018
Amount subject to credit risk (I)	793,061	859,433
Amount subject to market risk (II)	27,888	18,813
Amount subject to operational risk (III)	107,333	71,057
Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)	928,282	949,303
Capital for the purpose of calculating the capital adequacy ratio	307,387	304,641
Capital adequacy ratio	33.11%	32.09%

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Condensed Consolidated Interim Financial Information
As of and for the nine-month period ended 30 September 2019***(Currency - In thousands of Turkish Lira)***12. Fair value of financial and non-financial instruments****Valuation of assets measured at fair value**

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

30 September 2019	Level 1	Level 2	Level 3	Total
<i>Non-financial instruments</i>				
Investment property	-	-	46,279	46,279
<i>Financial instruments</i>				
Financial assets at fair value through profit or loss	4,461	4,740	-	9,201
Investment and loaned securities	89,196	-	160	89,356
	93,657	4,740	46,439	144,836
<i>Financial instruments</i>				
Financial liabilities at fair value through profit or loss	-	11,220	-	11,220
	-	11,220	-	11,220
31 December 2018	Level 1	Level 2	Level 3	Total
<i>Non-financial instruments</i>				
Investment property	-	-	46,279	46,279
<i>Financial instruments</i>				
Financial assets at fair value through profit or loss	7,197	5,895	-	13,092
Investment and loaned securities	88,110	-	-	88,110
	95,307	5,895	46,279	147,481
<i>Financial instruments</i>				
Financial liabilities at fair value through profit or loss	-	6,775	-	6,775
	-	6,775	-	6,775

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

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

Current Period	Asset management and treasury	Corporate banking	Retail banking	Non-financial services	Total
Interest income	29,654	48,280	95	302	78,331
Interest expense	(30,980)	(1,246)	-	-	(32,226)
Internal transfer rate income/(expense)	44,271	(44,074)	(197)	-	-
Net interest income	42,945	2,960	(102)	302	46,105
Net fee and commission income/(expense)	(147)	4,456	1	-	4,310
Net trading income and foreign exchange gain, net	112	100	(1)	667	878
Other operating income	1,387	147	-	303	1,837
Total operating income	44,297	7,663	(102)	1,272	53,130
Net impairment loss on financial and non-financial assets	180	(13,570)	(3)	-	(13,393)
Total operating expenses	(23,596)	(12,630)	(490)	(771)	(37,487)
Profit/(loss) before income tax	20,881	(18,537)	(595)	501	2,250
Income tax	11,878	(10,298)	(330)	-	1,250
Net profit/(loss) for the period	32,759	(28,835)	(925)	501	3,500
Total assets	250,855	634,464	1,177	7,135	893,631
Total liabilities	549,995	31,519	75	(81)	581,508

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

Prior Period	Headquarter 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	189,965	771,943	2,060	7,373	971,341
Total liabilities	636,881	23,344	106	658	660,989

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Condensed Consolidated Interim Financial Information

As of and for the nine-month period ended 30 September 2019

(Currency - In thousands of Turkish Lira)

14. Rating

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

Fitch Ratings, September 2019

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

15. Subsequent and other events

None.