

**Bankpozitif Kredi ve Kalkınma  
Bankası Anonim Şirketi**

**Independent Auditors' Report on Review of  
Condensed Consolidated Interim  
Financial Information  
For the Three-Month Period Ended  
31 March 2017**

15 May 2017

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

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

### **TABLE OF CONTENTS**

	<b>Page</b>
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 – 38



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

## **Independent auditors' report on review of interim financial information**

To the Board of Directors of

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

### *Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group") as at 31 March 2017, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of review*

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



*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 31 March 2017 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

*Emphasis of Matter*

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

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

Alper Güvenç SMMM  
Partner

15 May 2017  
İstanbul, Turkey

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Condensed Consolidated Interim Statement of Financial Position****As at 31 March 2017***(Currency - In thousands of Turkish Lira)*

		<b>Reviewed</b>	<b>Audited</b>
		<b>31 March</b>	<b>31 December</b>
	<i>Note</i>	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>			
Cash and balances with central banks		2	87
Due from banks and financial institutions		59,129	44,965
Interbank and other money market placements		5,927	25,065
Reserve deposits at central banks		80,434	152,643
Trading assets		7,645	12,276
Investment securities		45,425	47,290
Loaned securities		21,327	18,444
Loans and finance lease receivables	4	1,105,700	1,275,841
Property and equipment		2,714	2,665
Intangible assets	5	7,886	7,495
Deferred tax assets		5,100	5,760
Investment property	6	58,250	58,250
Other assets		36,555	36,398
<b>Total assets</b>		<b>1,436,094</b>	<b>1,687,179</b>
<b>LIABILITIES</b>			
Other money market deposits		20,248	17,892
Trading liabilities		241	1,795
Funds borrowed	7	357,249	675,358
Debt securities issued	8	637,786	580,487
Other liabilities		52,934	46,261
Provisions		5,716	7,141
<b>Total liabilities</b>		<b>1,074,174</b>	<b>1,328,934</b>
<b>EQUITY</b>			
Share capital and share premium	9	379,114	379,114
Legal reserves		16,168	16,168
Available-for-sale reserve, net of tax	9	3,603	1,096
Retained earnings		(36,965)	(38,133)
<b>Total equity</b>		<b>361,920</b>	<b>358,245</b>
<b>Total equity and liabilities</b>		<b>1,436,094</b>	<b>1,687,179</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Condensed Consolidated Interim Statement of Profit or Loss****For the three-month period ended 31 March 2017***(Currency - In thousands of Turkish Lira)*

		<b>Reviewed</b>	<b>Reviewed</b>
	<i>Note</i>	<b>1 January – 31 March 2017</b>	<b>1 January – 31 March 2016</b>
<b>Continuing Operations</b>			
<b>Interest income</b>			
Interest income on loans and finance leases		25,427	29,076
Interest income on deposits with other banks and financial institutions		1,084	309
Interest income on investment securities		709	1,611
Interest income on interbank and other money market placements		707	2,192
Other interest income		229	2,231
<b>Total interest income</b>		<b>28,156</b>	<b>35,419</b>
<b>Interest expense</b>			
Interest expense on other money market deposits		(343)	(275)
Interest expense on funds borrowed		(9,284)	(5,377)
Interest expense on debt securities issued		(6,202)	(10,896)
Other interest expense		(1,412)	(3,232)
<b>Total interest expense</b>		<b>(17,241)</b>	<b>(19,780)</b>
<b>Net interest income</b>		<b>10,915</b>	<b>15,639</b>
Fees and commission income		2,125	1,848
Fees and commission expense		(1,367)	(205)
<b>Net fee and commission income</b>		<b>758</b>	<b>1,643</b>
Net trading income and foreign exchange gain, net		531	291
Other operating income		422	1,344
<b>Total operating income</b>		<b>12,626</b>	<b>18,917</b>
<b>Net impairment profit/(loss) on financial assets</b>	4	<b>1,958</b>	<b>(869)</b>
Personnel expenses		(6,783)	(7,166)
Depreciation and amortisation		(807)	(938)
Administrative expenses		(4,506)	(4,436)
Taxes other than on income		(202)	(259)
Other expenses		(816)	(2,260)
<b>Total operating expenses</b>		<b>(13,114)</b>	<b>(15,059)</b>
<b>Profit before income tax</b>		<b>1,470</b>	<b>2,989</b>
Income tax		(117)	(3,586)
<b>Profit/(Loss) from continuing operations</b>		<b>1,353</b>	<b>(597)</b>
<b>Profit/(Loss) from discontinued operation, net of tax</b>		<b>-</b>	<b>-</b>
<b>Profit/(Loss)</b>		<b>1,353</b>	<b>(597)</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income  
For the three-month period ended 31 March 2017***(Currency - In thousands of Turkish Lira)*

	<b>Reviewed</b>	<b>Reviewed</b>
	<b>1 January– 31 March 2017</b>	<b>1 January– 31 March 2016</b>
<b>Profit/(loss) for the period</b>	<b>1,353</b>	<b>(597)</b>
<b>Other comprehensive income</b>		
<i>Items that will never be reclassified to profit or loss</i>		
Remeasurement of employee termination benefits	(231)	-
Deferred tax	46	-
	<b>(185)</b>	<b>-</b>
<i>Items that are or may be reclassified to profit or loss</i>		
Foreign currency translation differences for foreign operations	-	-
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	2,755	424
Net change in fair value of available-for-sale financial assets transferred to profit or loss	379	246
Income tax	(627)	(85)
	<b>2,507</b>	<b>585</b>
<b>Other comprehensive income/(loss) for the period from continued operations, net of income tax</b>	<b>2,322</b>	<b>585</b>
<b>Total comprehensive loss for the period</b>	<b>3,675</b>	<b>(12)</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Condensed Consolidated Interim Statement of Changes in Equity  
For the three-month period ended 31 March 2017***(Currency - In thousands of Turkish Lira)*

	<i>Note</i>	Share capital	Share premium	Adjustment to share capital	Legal reserves	Available-for-sale reserve, net of tax	Currency translation reserve	Accumulated losses	Total
<b>At 1 January 2016</b>		<b>337,292</b>	<b>20,121</b>	<b>21,701</b>	<b>16,168</b>	<b>2,874</b>	-	<b>(52,928)</b>	<b>345,228</b>
<b>Total comprehensive income for the period</b>									
Loss for the period		-	-	-	-	-	-	(597)	(597)
<b>Other comprehensive income</b>									
Foreign currency translation differences		-	-	-	-	-	-	-	-
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	585	-	-	585
<b>Total other comprehensive income</b>		-	-	-	-	<b>585</b>	-	-	<b>585</b>
<b>Total comprehensive income for the period</b>		-	-	-	-	<b>585</b>	-	<b>(597)</b>	<b>(12)</b>
<b>Contributions by and distributions to owners</b>									
Dividends to equity holders		-	-	-	-	-	-	-	-
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	-	-	-
<b>Transfers</b>		-	-	-	-	-	-	-	-
<b>At 31 March 2016</b>		<b>337,292</b>	<b>20,121</b>	<b>21,701</b>	<b>16,168</b>	<b>3,459</b>	-	<b>(53,525)</b>	<b>345,216</b>
<b>At 1 January 2017</b>	9	<b>337,292</b>	<b>20,121</b>	<b>21,701</b>	<b>16,168</b>	<b>1,096</b>	-	<b>(38,133)</b>	<b>358,245</b>
<b>Total comprehensive income for the period</b>									
Profit for the period		-	-	-	-	-	-	1,353	1,353
<b>Other comprehensive income</b>									
Foreign currency translation differences		-	-	-	-	-	-	-	-
Remeasurements of defined benefit liability/(asset), net of tax		-	-	-	-	-	-	(185)	(185)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-	2,507	-	-	2,507
<b>Total other comprehensive income</b>		-	-	-	-	<b>2,507</b>	-	<b>(185)</b>	<b>2,322</b>
<b>Total comprehensive income for the period</b>		-	-	-	-	<b>2,507</b>	-	<b>1,168</b>	<b>3,675</b>
<b>Contributions by and distributions to owners</b>									
Dividends to equity holders		-	-	-	-	-	-	-	-
<b>Total contributions by and distributions to owners</b>		-	-	-	-	-	-	-	-
<b>Transfers</b>		-	-	-	-	-	-	-	-
<b>At 31 March 2017</b>	9	<b>337,292</b>	<b>20,121</b>	<b>21,701</b>	<b>16,168</b>	<b>3,603</b>	-	<b>(36,965)</b>	<b>361,920</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Condensed Consolidated Interim Statement of Cash Flows****For the three-month period ended 31 March 2017***(Currency - In thousands of Turkish Lira)*

	<b>Reviewed</b>	<b>Reviewed</b>
	<b>1 January –</b>	<b>1 January –</b>
<i>Note</i>	<b>31 March 2017</b>	<b>31 March 2016</b>
<b>Cash flows from operating activities</b>		
Interest received	27,613	32,094
Interest paid	(22,761)	(26,553)
Fees and commissions received	2,362	2,142
Fees and commissions paid	(1,367)	(501)
Trading income	477	188
Recoveries from non-performing loans	3,056	451
Cash payments to employees and other parties	(10,408)	(12,589)
Cash received from/(paid to) other operating activities	(10,818)	1,346
Cash paid for other operating activities	(4,064)	(8,794)
Income taxes paid	-	-
	<b>(15,910)</b>	<b>(12,216)</b>
Change in banks and financial institutions	(54)	430
Change in trading assets	1,882	(91)
Change in reserve deposits at central banks	72,259	29,968
Change in loans and finance lease receivables	116,272	21,205
Change in other assets	10,823	20,522
Change in interbank and other money market deposits	2,361	(1,071)
Change in other liabilities	5,132	4,440
<b>Net cash provided by / (used in) operating activities</b>	<b>192,765</b>	<b>63,187</b>
<b>Cash flows from investing activities</b>		
Purchases of investment securities	(4,555)	(9,208)
Proceeds from sale and redemption of investment securities	7,269	6,683
Purchases of property and equipment	(324)	(906)
Proceeds from the sale of premises and equipment	1	755
Purchases of intangible assets	(867)	(970)
<b>Net cash provided by / (used in) investing activities</b>	<b>1,524</b>	<b>(3,646)</b>
<b>Cash flows from financing activities</b>		
Proceeds from funds borrowed	165,853	276,613
Repayment of funds borrowed	(413,584)	(347,609)
Proceeds from debt securities issued	98,347	-
Repayment of debt securities issued	(53,122)	(89,387)
<b>Net cash provided by / (used in) financing activities</b>	<b>(202,506)</b>	<b>(160,383)</b>
Effect of net foreign exchange difference on cash and cash equivalents	3,166	1,117
<b>Net decrease in cash and cash equivalents</b>	<b>(5,051)</b>	<b>(99,725)</b>
Cash and cash equivalents at 1 January	70,117	131,886
<b>Cash and cash equivalents at 31 March</b>	<b>65,066</b>	<b>32,161</b>

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

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

## **Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

<b>Notes to the condensed consolidated interim financial information</b>		<b>Pages</b>
Note 1	Corporate information	7
Note 2	Basis of preparation	8
Note 3	Use of judgements and estimates	9
Note 4	Loans and finance lease receivables	10
Note 5	Intangible assets	11
Note 6	Investment property	12
Note 7	Funds borrowed	13
Note 8	Debts securities issued	13
Note 9	Capital and reserves	13
Note 10	Related parties	15
Note 11	Commitment and contingencies	16
Note 12	Financial risk management	19
Note 13	Fair value of financial instruments	35
Note 14	Operating segments	36
Note 15	Rating	38
Note 16	Subsequent and other events	38

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

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

**As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

### **1. Corporate information**

#### **General**

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

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

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

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 1. Corporate information (continued)

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

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

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

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

As at 31 March 2017, the Bank provides services through its head office. As at 31 March 2017, the number of employees for the Bank and its consolidated subsidiaries are 78 and 1, respectively (31 December 2016 – 127 and 2).

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

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

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

### 2. Basis of preparation

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

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

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

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

**As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

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

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

A number of new standards, amendments to standards and interpretations are not yet effective for the three month period ended 31 March 2017, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

##### *IFRS 9 Financial Instruments*

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

##### *IFRS 16 Leases*

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

### **3. Use of judgements and estimates**

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

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

##### *Measurement of fair values*

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

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

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

**As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

#### **3. Use of judgements and estimates (continued)**

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 instruments.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***4. Loans and finance lease receivables**

<b>31 March 2017</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Foreign currency indexed</b>	<b>Total</b>
Corporate loans and finance lease receivables	205,097	763,162	73,820	1,042,079
Consumer loans	7,963	-	2,675	10,638
<b>Total loans and finance lease receivables</b>	<b>213,060</b>	<b>763,162</b>	<b>76,495</b>	<b>1,052,717</b>
Loans and finance lease receivables in arrears	73,770	-	-	73,770
Less: Specific reserve for impairment	(15,930)	-	-	(15,930)
Less: Portfolio reserve for impairment	(4,857)	-	-	(4,857)
	<b>266,043</b>	<b>763,162</b>	<b>76,495</b>	<b>1,105,700</b>

  

<b>31 December 2016</b>	<b>Turkish Lira</b>	<b>Foreign currency</b>	<b>Foreign currency indexed</b>	<b>Total</b>
Corporate loans and finance lease receivables	233,824	843,982	76,482	1,154,288
Consumer loans	64,460	-	4,504	68,964
<b>Total loans and finance lease receivables</b>	<b>298,284</b>	<b>843,982</b>	<b>80,986</b>	<b>1,223,252</b>
Loans and finance lease receivables in arrears	76,153	-	-	76,153
Less: Specific reserve for impairment	(16,718)	-	-	(16,718)
Less: Portfolio reserve for impairment	(6,846)	-	-	(6,846)
	<b>350,873</b>	<b>843,982</b>	<b>80,986</b>	<b>1,275,841</b>

As at 31 March 2017, loans and finance lease receivables with floating rates are TL 187,459 (31 December 2016: TL 267,113) and fixed interest rates are TL 865,258 (31 December 2016: TL 956,139).

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the period ended 31 March 2017**

(Currency - In thousands of Turkish Lira)

**4. Loans and finance lease receivables (continued)**

Movements in non-performing loans and finance lease receivables:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Non-performing loans and finance lease receivables at 1 January	76,153	61,511
Additions to non-performing loans and finance lease receivables	938	30,995
Recoveries	(3,056)	(1,723)
Write-offs <sup>(1)</sup>	(265)	(14,630)
<b>Non-performing loans and finance lease receivables at the end of period</b>	<b>73,770</b>	<b>76,153</b>

<sup>(1)</sup> Write-offs include TL 53 (31 December 2016 - TL 9,058) of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans to an asset management amounting to TL 265 (31 December 2016 - TL 14,630) to an asset management for TL 105 as at 31 March 2017 (31 December 2016 - TL 1,916).

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

	<b>31 March 2017</b>	<b>31 December 2016</b>
Reserve at the beginning of the year	23,564	31,982
Provision net of recoveries	(1,958)	3,330
- <i>Provision for loan and finance lease receivables impairment</i>	920	13,841
- <i>Recoveries</i>	(3,534)	(10,511)
Write-offs <sup>(1)</sup>	(819)	(11,748)
<b>Reserve at the end of the period</b>	<b>20,787</b>	<b>23,564</b>

<sup>(1)</sup> Write-offs include TL 53 (31 December 2016 - TL 9,058) of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans to an asset management amounting to TL 265 (31 December 2016 - TL 14,630) to an asset management for TL 105 as at 31 March 2017 (31 December 2016 - TL 1,916).

**5. Intangible assets**

Intangible assets consist of purchased software and developed software.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 6. Investment property

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

Accordingly, the Hotel was valued by an independent appraiser. According to the report dated 3 August 2015 prepared by a real estate appraisal company, which is included in the list to provide valuation service by the Capital Markets Board of Turkey (“CMB”), the fair value of hotel is determined as TL 56,155 for shares of the land and building owned by the Group determined according to the discounted cash flow projections approach. Investment property comprises a commercial properties that are leased to third parties. Lease contains an initial non-cancellable period of 10 years, with annual increases in rents indexed to consumer prices. Rental income from investment property amounting to TL 194 has been recognised in other income. The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate which is 3%, occupancy rate which is 40% and discount rate which is 11%.

The fair values of the Group’s investment property are categorised into Level 3 of the fair value hierarchy.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***7. Funds borrowed**

	31 March 2017		31 December 2016	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
<b>Short-term<sup>(1)</sup></b>				
Fixed interest	16,009	99,615	8,269	423,369
Floating interest	-	24,693	-	16,667
<b>Long-term<sup>(1)</sup></b>				
Fixed interest	-	205,501	-	196,106
Floating interest	-	11,431	-	30,947
<b>Total</b>	<b>16,009</b>	<b>341,240</b>	<b>8,269</b>	<b>667,089</b>

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

Floating rate borrowings have interest rate repricing periods of 1 to 3 months.

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

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

**8. Debt securities issued**

	31 March 2017		31 December 2016	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Debt securities issued at amortised cost	99,301	538,485	51,150	529,337
<b>Total</b>	<b>99,301</b>	<b>538,485</b>	<b>51,150</b>	<b>529,337</b>

**9. Capital and reserves**

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 9. Capital and reserves (continued)

#### Share capital and share premium

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

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

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

#### Legal reserves

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

#### Other reserves

##### Available-for-sale reserve

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(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 2016: 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial information, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

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

	Shareholders		Directors and key management personnel		Others	
	2017	2016	2017	2016	2017	2016
	<b>Loans and finance lease receivables</b>					
At 1 January	-	-	27	-	-	-
At end of the period/year	-	-	23	27	-	-

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

	Shareholders		Directors and key management personnel		Others	
	2017	2016	2017	2016	2017	2016
	<b>Funds borrowed</b>					
At 1 January	282,408	218,514	-	-	7,073	2,920
At end of the period/year	-	282,408	-	-	7,360	7,073
Interest expense <sup>(1)</sup>	(16)	(6,860)	-	-	(324)	(1,782)

<sup>(1)</sup> Interest expense in the above tables for 2016 represents the balances as of 31 March 2016.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***10. Related parties (continued)**

Other balances with related parties:

<b>Related party</b>		<b>Deposits</b>	<b>Other liabilities</b>	<b>Non-cash loans</b>	<b>Other interest expense</b>
Shareholders	31 March 2017	-	3	29,140	-
	31 December 2016	-	3	28,185	-
Directors and key management personnel	31 March 2017	-	19	-	-
	31 December 2016	14	-	-	-
Others	31 March 2017	-	11,368	18	(58)
	31 December 2016	-	10,955	18	-

**Compensation of key management personnel of the Group**

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 3,182 (31 March 2016: TL 3,296) 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:

	<b>31 March 2017</b>	<b>31 December 2016</b>
Letters of guarantee	290,197	377,394
Letters of credit	49,200	55,655
Other guarantees	15,454	14,670
Commitments	12,219	12,216
<b>Total non-cash loans</b>	<b>367,070</b>	<b>459,935</b>

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

### **Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

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

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

1- The Bank filed a complaint to Enforcement Court against proceeding filed against the bank because of the fact that the document basis of proceeding is not suitable for enforcement proceeding and the irregularity during proceeding filing transactions. Upon the complaint, the principal judge hearing the file made a decision of injunction and the trial was postponed to 27 October 2016. However, the provisional judge who heard the file during judiciary recess lifted the injunction and the proceeding started over. Despite the dispute filed to the court, no suspension of proceeding again decision was made. During the first trial held on 27 October 2016, the court decided revocation of the proceeding. The opposing party filed a dispute to appellate court; however the appellate court reviewing the subject matter rejected such demand. Whereupon the opposing party also appealed decision of the appellate court. The appellate petition of the opposing party was served to the Bank. After writing a response to the appellate demand, the Bank will wait for Supreme Court decision about the file.

2- Upon release of the injunction decision made by Civil Court of Enforcement as described at above article, a Negative Declaratory Action (demand for determination of not being debtor by the court) was filed under the file of 2016/964 by Gaziantep Commercial Court of First Instance no. 1 which is another court in order to stop ongoing proceeding again. During file opening, a letter of guarantee amounting to TRY 60,241 was submitted a cautionary judgment was caused to be taken on execution proceeding. The parties submitted declarations to the Court, evidence was provided. The court decided to postpone the hearing to 31 May 2017 for waiting for missing files and evaluating evidence and declarations. In the meantime, as set forth at article one, since the proceeding was revoked and need for taking a cautionary judgment on execution proceeding disappeared automatically, the part TRY 7,236 held by the Execution Office of the abovementioned letter of guarantee amounting to TRY 60,241 was returned. Decision will be made during the hearing to be held on 31 May 2017 about returning the letter amounting to TRY 7,236 held by the court.

3- The Bank filed a complaint to Gaziantep Chief Prosecutor's Office against those who attempted the fraud. The Prosecutor's Office made decision of non-prosecution about Erdoğan Süyür, filing a lawsuit against Volkan Savaş for misconduct, and opening an investigation about Hasan Akçakayalıoğlu and Menashe Carmon for slander and giving misstatement to public authorities. A dispute was filed by us to Criminal Court of Peace against the Prosecutor's Office decision; however the Court rejected the Bank's demand. The Bank applied to the Ministry of Justice by judgment non obstante veredicto for cancellation of Prosecutor's Office decision which is against procedure and the law and likewise the Court decision which rejected the Bank's dispute as biased, the Bank's file continues to be reviewed at the Ministry of Justice criminal division.

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

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

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

**As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

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

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

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

Further, the Ministry of Justice inspectors who inspected execution leg of the fraud attempt determined irregularities and completed their reports.

In addition to these, Directorate General of Land Registry and Cadastre inspection board inspected land register leg of the fraud attempt and made determinations against declarations submitted by suspects to the prosecutor's office.

The Bank management expects that the lawsuits will be concluded in favor of the Bank on the basis of many facts and legal grounds that corroborate allegations of the Bank under the above-mentioned developments.

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

## **Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

### **12. Financial risk management**

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

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

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

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

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

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

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

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

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

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

### **Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017**

*(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, 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 31 March 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)**

<b>31 March 2017</b>	<b>Loans and advances to customers</b>	<b>Loans and advances to banks</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
Neither past due nor impaired	852,137	59,129	66,752	367,070
Past due but not impaired	200,580	-	-	-
Individually impaired	73,770	-	-	-
Allowance for impairment				
- Individual impairment	(15,930)	-	-	-
- Collective impairment	(4,857)	-	-	-
	<b>1,105,700</b>	<b>59,129</b>	<b>66,752</b>	<b>367,070</b>

  

<b>31 December 2016</b>	<b>Loans and advances to customers</b>	<b>Loans and advances to banks</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
Neither past due nor impaired	1,138,481	44,965	65,734	459,935
Past due but not impaired	84,771	-	-	-
Individually impaired	76,153	-	-	-
Allowance for impairment				
- Individual impairment	(16,718)	-	-	-
- Collective impairment	(6,846)	-	-	-
	<b>1,275,841</b>	<b>44,965</b>	<b>65,734</b>	<b>459,935</b>

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

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

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

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

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

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

*Creating credit risk awareness throughout the Group*

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

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

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

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

**As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

#### **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 31 March 2017, the share of the Group's loan to its top 20 credit customers in its total loan portfolio is 61% (31 December 2016 – 54%).

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

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

**As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

#### **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 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.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk*

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

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

<b>31 March 2017</b>	<b>Cash loans</b>	<b>Non-cash loans</b>	<b>Total</b>
Electric production and supply	285,237	59,445	344,682
Holding companies	193,956	2,755	196,711
Other commercial services	151,920	24,109	176,029
Public works and civil engineering	75,369	61,366	136,735
Building contractor (general and special trade)	83,207	19,662	102,869
Food, beverage and tobacco industries	75,393	1,738	77,131
Transportation	69,051	109	69,160
Other financial institutions	32,897	11,823	44,720
Personal other services	5,242	38,066	43,308
Trade	261	36,830	37,091
Metal and by-products	11,246	24,518	35,764
Commercial, mortgage, investment finance banks	-	29,118	29,118
Consumer loans	19,328	2,259	21,587
Tourism and entertainment	-	13,297	13,297
Electrical and electronic equipment	-	12,973	12,973
Textile and clothing	11,334	30	11,364
Machinery and equipment	1,954	1,333	3,287
Agriculture and forestry	1,500	-	1,500
Others	-	27,639	27,639
<b>Total performing loans</b>	<b>1,017,895</b>	<b>367,070</b>	<b>1,384,965</b>
Loans in arrears	73,770	-	73,770
Interest accruals	34,822	-	34,822
Provision for possible loan losses	(20,787)	-	(20,787)
<b>Total loans</b>	<b>1,105,700</b>	<b>367,070</b>	<b>1,472,770</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

<b>31 December 2016</b>	<b>Cash loans</b>	<b>Non-cash loans</b>	<b>Total</b>
Electric production and supply	297,142	100,355	397,497
Other commercial services	186,785	24,109	210,894
Holding companies	191,893	2,689	194,582
Public works and civil engineering	76,090	58,839	134,929
Building contractor (general and special trade)	86,725	22,656	109,381
Transportation	89,616	10,605	100,221
Consumer loans	83,796	2,259	86,055
Food, beverage and tobacco industries	72,750	9,832	82,582
Other financial institutions	54,790	11,823	66,613
Trade	1,573	64,949	66,522
Metal and by-products	17,180	32,468	49,648
Personal other services	7,794	37,660	45,454
Commercial, mortgage, investment finance banks	-	28,163	28,163
Textile and clothing	18,179	30	18,209
Electrical and electronic equipment	-	12,953	12,953
Tourism and entertainment	-	12,900	12,900
Machinery and equipment	2,319	1,324	3,643
Agriculture and forestry	1,500	-	1,500
Others	-	26,321	26,321
<b>Total performing loans</b>	<b>1,188,132</b>	<b>459,935</b>	<b>1,648,067</b>
Loans in arrears	76,153	-	76,153
Interest accruals	35,120	-	35,120
Provision for possible loan losses	(23,564)	-	(23,564)
<b>Total loans</b>	<b>1,275,841</b>	<b>459,935</b>	<b>1,735,776</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the period ended 31 March 2017**

(Currency - In thousands of Turkish Lira)

**12. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

Total collateralisation coverage of cash and non-cash loans are 95% as at 31 March 2017 (31 December 2016: 91%).

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

	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Cash loans (including financial lease receivables) under loan in arrears</b>		
Secured by mortgages	61,284	62,783
Secured by guarantee	-	-
Secured by assignment and cheques	-	459
Unsecured	12,486	12,911
<b>Total</b>	<b>73,770</b>	<b>76,153</b>
<b>Cash loans (including financial lease receivables) except loan in arrears</b>		
Secured by cash	9,448	8,946
Secured by mortgages	319,090	346,801
Secured by pledge	140,621	222,253
Secured by guarantee	229,713	235,645
Secured by assignment and cheques	338,548	308,813
Unsecured	15,297	100,794
<b>Total</b>	<b>1,052,717</b>	<b>1,223,252</b>
<b>Non-cash loans</b>		
Secured by cash	5,613	5,610
Secured by mortgages	11,711	22,543
Secured by guarantee	239,401	323,766
Secured by assignment and cheques	55,716	54,767
Unsecured	54,629	53,249
<b>Total</b>	<b>367,070</b>	<b>459,935</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 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.

<b>31 March 2017</b>	<b>Carrying amount</b>	<b>Gross outflow</b>	<b>On demand</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>
Interbank and other money market deposits	20,248	20,248	-	20,248	-	-	-	-
Funds borrowed	357,249	388,981	-	58,151	30,343	61,937	136,236	102,314
Debt securities issued	637,786	661,819	-	-	52,356	609,463	-	-
Current account of loan customers <sup>(1)</sup>	41,994	41,994	-	35,307	5,496	-	1,191	-
	<b>1,057,277</b>	<b>1,113,042</b>	<b>-</b>	<b>113,706</b>	<b>88,195</b>	<b>671,400</b>	<b>137,427</b>	<b>102,314</b>

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

<b>31 December 2016</b>	<b>Carrying amount</b>	<b>Gross outflow</b>	<b>On demand</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>
Interbank and other money market deposits	17,892	17,892	-	17,892	-	-	-	-
Funds borrowed	675,358	709,796	-	42,920	375,754	77,474	112,555	101,093
Debt securities issued	580,487	619,880	-	-	63,276	15,527	541,077	-
Current account of loan customers <sup>(1)</sup>	35,429	36,162	-	29,527	5,496	-	1,139	-
	<b>1,309,166</b>	<b>1,383,730</b>	<b>-</b>	<b>90,339</b>	<b>444,526</b>	<b>93,001</b>	<b>654,771</b>	<b>101,093</b>

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 12. Financial risk management (continued)

#### Liquidity risk (continued)

31 March 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	-	-	-	-	-	-	-
Forward sale contracts	-	-	-	-	-	-	-
Currency swap purchases	27,258	7,751	2,362	1,385	348	-	39,104
Currency swap sales	27,217	5,472	2,337	977	271	-	36,274
Interest rate cap/floor purchase contracts	-	-	-	-	-	109,158	109,158
	<b>54,475</b>	<b>13,223</b>	<b>4,699</b>	<b>2,362</b>	<b>619</b>	<b>109,158</b>	<b>184,536</b>

31 December 2016	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	2,672	329	-	-	-	-	3,001
Forward sale contracts	2,657	343	-	-	-	-	3,000
Currency swap purchases	137,245	16,884	7,497	1,339	337	-	163,302
Currency swap sales	137,833	15,717	5,194	927	259	-	159,930
Interest rate cap/floor purchase contracts	-	-	-	-	-	105,576	105,576
	<b>280,407</b>	<b>33,273</b>	<b>12,691</b>	<b>2,266</b>	<b>596</b>	<b>105,576</b>	<b>434,809</b>

#### 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 31 March 2017, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 81 (31 December 2016: TL 86) for one day.

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

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

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

#### Currency risk

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 12. Financial risk management (continued)

#### Currency risk (continued)

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

31 March 2017	USD	Euro	CHF	JPY	Others	Total
<b>Assets</b>						
Cash and balances with central banks	-	-	-	-	-	-
Due from banks and financial institutions	4,872	524	447	10	33	5,886
Trading assets	3,622	-	-	-	-	3,622
Reserve deposits at central Banks	75,055	-	-	-	-	75,055
Loans and finance lease receivables <sup>(1)</sup>	537,559	300,108	1,588	342	60	839,657
Other assets	615	7	-	-	6,110	6,732
<b>Total assets</b>	<b>621,723</b>	<b>300,639</b>	<b>2,035</b>	<b>352</b>	<b>6,203</b>	<b>930,952</b>
<b>Liabilities</b>						
Trading liabilities	240	-	-	1	-	241
Funds borrowed	71,695	269,545	-	-	-	341,240
Debt securities issued	538,485	-	-	-	-	538,485
Other liabilities	19,141	14,174	7	-	2	33,324
<b>Total liabilities</b>	<b>629,561</b>	<b>283,719</b>	<b>7</b>	<b>1</b>	<b>2</b>	<b>913,290</b>
<b>Gross exposure</b>	<b>(7,838)</b>	<b>16,920</b>	<b>2,028</b>	<b>351</b>	<b>6,201</b>	<b>17,662</b>
<b>Off-balance sheet position</b>						
Net notional amount of derivatives	11,229	(16,904)	(2,008)	(329)	(90)	(8,102)
<b>Net exposure</b>	<b>3,391</b>	<b>16</b>	<b>20</b>	<b>22</b>	<b>6,111</b>	<b>9,560</b>
<b>31 December 2016</b>						
	<b>USD</b>	<b>Euro</b>	<b>CHF</b>	<b>JPY</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>						
Cash and balances with central banks	72	-	-	-	-	72
Due from banks and financial institutions	33,699	855	256	16	26	34,852
Reserve deposits at central Banks	150,899	-	-	-	-	150,899
Loans and finance lease receivables <sup>(1)</sup>	590,470	330,866	2,977	589	66	924,968
Other assets	6,523	770	-	-	5,238	12,531
<b>Total assets</b>	<b>781,663</b>	<b>332,491</b>	<b>3,233</b>	<b>605</b>	<b>5,330</b>	<b>1,123,322</b>
<b>Liabilities</b>						
Funds borrowed	377,713	289,376	-	-	-	667,089
Debt securities issued	529,337	-	-	-	-	529,337
Other liabilities	22,839	11,590	7	12	2	34,450
<b>Total liabilities</b>	<b>929,889</b>	<b>300,966</b>	<b>7</b>	<b>12</b>	<b>2</b>	<b>1,230,876</b>
<b>Gross exposure</b>	<b>(148,226)</b>	<b>31,525</b>	<b>3,226</b>	<b>593</b>	<b>5,328</b>	<b>(107,554)</b>
<b>Off-balance sheet position</b>						
Net notional amount of derivatives	258,913	(31,500)	(3,211)	(600)	(86)	223,516
<b>Net exposure</b>	<b>110,687</b>	<b>25</b>	<b>15</b>	<b>(7)</b>	<b>5,242</b>	<b>115,962</b>

<sup>(1)</sup> Foreign currency net non-performing loans and finance lease receivables amounting to TL 10,491 are included at foreign currency position (31 December 2016: TL 14,977).

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 12. Financial risk management (continued)

#### Currency risk (continued)

##### Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 31 March 2017 and 31 December 2016 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 March 2017		31 December 2016	
	Equity	Profit or loss	Equity	Profit or loss
USD	339	339	11,069	11,069
EUR	2	2	3	3
Other currencies	615	615	525	525
<b>Total</b>	<b>956</b>	<b>956</b>	<b>11,597</b>	<b>11,597</b>

A 10% strengthening of the TL against the foreign currencies at 31 March 2017 and 31 March 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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

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

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information

As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 12. Financial risk management (continued)

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

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

31 March 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
<b>Assets</b>											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	2	2
Due from banks and financial institutions	48,016	-	-	-	-	-	-	-	-	11,113	59,129
Interbank and other money market placements	5,927	-	-	-	-	-	-	-	-	-	5,927
Reserve deposits at central banks	47,613	-	-	-	-	-	-	-	-	32,821	80,434
Investment securities	1,218	729	3,500	1,302	-	590	12,118	20,350	5,618	-	45,425
Loan securities	825	89	973	-	1,409	-	22	9,067	8,942	-	21,327
Loans and finance lease receivables	40,186	113,400	100,052	159,499	183,823	84,286	72,627	82,185	225,428	44,214	1,105,700
Trading assets	36	2,482	961	406	77	-	-	392	3,291	-	7,645
Other assets	1,855	-	-	28,000	-	-	-	-	-	80,650	110,505
<b>Total assets</b>	<b>145,676</b>	<b>116,700</b>	<b>105,486</b>	<b>189,207</b>	<b>185,309</b>	<b>84,876</b>	<b>84,767</b>	<b>111,994</b>	<b>243,279</b>	<b>168,800</b>	<b>1,436,094</b>
<b>Liabilities</b>											
Other money market deposits	20,248	-	-	-	-	-	-	-	-	-	20,248
Funds borrowed	57,662	30,179	16,963	39,926	53,932	21,384	21,384	21,384	94,435	-	357,249
Debt securities issued	-	51,317	51,813	534,656	-	-	-	-	-	-	637,786
Other liabilities <sup>(1)</sup>	5,629	8,032	231	-	-	-	-	1,191	-	43,808	58,891
<b>Total liabilities</b>	<b>83,539</b>	<b>89,528</b>	<b>69,007</b>	<b>574,582</b>	<b>53,932</b>	<b>21,384</b>	<b>21,384</b>	<b>22,575</b>	<b>94,435</b>	<b>43,808</b>	<b>1,074,174</b>
<b>Financial position interest sensitivity gap</b>	<b>62,137</b>	<b>27,172</b>	<b>36,479</b>	<b>(385,375)</b>	<b>131,377</b>	<b>63,492</b>	<b>63,383</b>	<b>89,419</b>	<b>148,844</b>	<b>124,992</b>	<b>361,920</b>
Off-balance sheet interest sensitivity gap, net	39	2,279	-	433	79	-	-	-	109,158	-	111,988
<b>Total interest sensitivity gap</b>	<b>62,176</b>	<b>29,451</b>	<b>36,479</b>	<b>(384,942)</b>	<b>131,456</b>	<b>63,492</b>	<b>63,383</b>	<b>89,419</b>	<b>258,002</b>	<b>124,992</b>	<b>473,908</b>

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 12. Financial risk management (continued)

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

31 December 2016	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non- interest bearing	Total
<b>Assets</b>											
Cash and balances with central banks	-	-	-	-	-	-	-	-	-	87	87
Due from banks and financial institutions	38,035	-	-	-	-	-	-	-	-	6,930	44,965
Interbank and other money market placements	25,065	-	-	-	-	-	-	-	-	-	25,065
Reserve deposits at central banks	117,446	-	-	-	-	-	-	-	-	35,197	152,643
Investment securities	6,489	469	1,358	1,403	301	1,458	7,780	12,037	15,995	-	47,290
Loaned securities	890	427	113	-	-	-	-	13,057	3,957	-	18,444
Loans and finance lease receivables	87,532	44,680	137,581	177,426	233,795	126,331	81,432	94,191	247,575	45,298	1,275,841
Trading assets	115	3,219	2,375	410	77	-	677	-	5,403	-	12,276
Other assets	2,818	-	-	-	28,000	-	-	-	-	79,750	110,568
<b>Total assets</b>	<b>278,390</b>	<b>48,795</b>	<b>141,427</b>	<b>179,239</b>	<b>262,173</b>	<b>127,789</b>	<b>89,889</b>	<b>119,285</b>	<b>272,930</b>	<b>167,262</b>	<b>1,687,179</b>
<b>Liabilities</b>											
Other money market deposits	17,892	-	-	-	-	-	-	-	-	-	17,892
Funds borrowed	29,933	373,318	50,616	34,264	33,497	20,300	20,300	20,300	92,830	-	675,358
Debt securities issued	-	59,258	2,270	-	518,959	-	-	-	-	-	580,487
Other liabilities <sup>(1)</sup>	15,551	9,527	-	-	-	-	-	1,140	-	28,979	55,197
<b>Total liabilities</b>	<b>63,376</b>	<b>442,103</b>	<b>52,886</b>	<b>34,264</b>	<b>552,456</b>	<b>20,300</b>	<b>20,300</b>	<b>21,440</b>	<b>92,830</b>	<b>28,979</b>	<b>1,328,934</b>
<b>Financial position interest sensitivity gap</b>	<b>215,014</b>	<b>(393,308)</b>	<b>88,541</b>	<b>144,975</b>	<b>(290,283)</b>	<b>107,489</b>	<b>69,589</b>	<b>97,845</b>	<b>180,100</b>	<b>138,283</b>	<b>358,245</b>
Off-balance sheet interest sensitivity gap, net	(572)	1,153	-	2,715	77	-	-	-	105,576	-	108,949
<b>Total interest sensitivity gap</b>	<b>214,442</b>	<b>(392,155)</b>	<b>88,541</b>	<b>147,690</b>	<b>(290,206)</b>	<b>107,489</b>	<b>69,589</b>	<b>97,845</b>	<b>285,676</b>	<b>138,283</b>	<b>467,194</b>

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Condensed Consolidated Interim Financial Information As of and for the period ended 31 March 2017

(Currency - In thousands of Turkish Lira)

### 12. Financial risk management (continued)

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

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

31 March 2017 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	10.73	0.72	-	-	-	-
Interbank and other money market placements	11.28	-	-	-	-	-
Marketable securities (Investment and trading)	5.21	5.00	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	18.33	7.33	4.78	-	-	-
- Retail loans	13.60	8.59	9.54	7.94	6.52	11.58
Other money market deposits	9.12	-	-	-	-	-
Funds borrowed and debt securities issued	11.68	3.03	2.38	-	-	-
Current account of loan customers <sup>(1)</sup>	9.04	6.03	-	-	-	-
31 December 2016 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	9.21	0.32	-	-	-	-
Interbank and other money market placements	12.36	-	-	-	-	-
Marketable securities (Investment and trading)	6.18	5.00	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	15.51	6.61	4.40	-	-	-
- Retail loans	17.66	8.97	8.07	6.79	5.82	10.13
Other money market deposits	6.95	-	-	-	-	-
Funds borrowed and debt securities issued	10.50	2.73	2.17	-	-	-
Current account of loan customers <sup>(1)</sup>	7.42	3.13	0.14	-	-	-

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

#### Internal capital adequacy assessment process

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***12. Financial risk management (continued)****Cash flow and fair value interest rate risk (continued)****Exposure to interest rate risk – non-trading portfolios**

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

<b>Change at portfolio value/Total equity (%)</b>	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Local TL interest rate</b>		
+500 bps	(2.14)	(3.69)
-400 bps	3.04	4.35
<b>Foreign currency interest rate</b>		
+200 bps EUR	2.15	1.58
-200 bps EUR	(0.36)	(0.22)
+200 bps USD	(5.04)	(1.84)
-200 bps USD	5.84	2.94

**Capital adequacy**

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

	<b>31 March 2017</b>	<b>31 December 2016</b>
Amount subject to credit risk (I)	1,357,169	1,753,698
Amount subject to market risk (II)	75,625	111,406
Amount subject to operational risk (III)	101,181	104,108
<b>Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)</b>	<b>1,533,975</b>	<b>1,969,212</b>
Capital for the purpose of calculating the capital adequacy ratio	342,023	334,486
<b>Capital adequacy ratio</b>	<b>23.36%</b>	<b>17.91%</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***13. Fair value of financial and non-financial instruments****Valuation of assets measured at fair value**

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

<b>31 March 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	58,250	58,250
<i>Financial instruments</i>				
Trading assets	4,013	3,632	-	7,645
Investment and loaned securities <sup>(1)</sup>	66,752	-	-	66,752
	<b>70,765</b>	<b>3,632</b>	<b>58,250</b>	<b>132,647</b>
<i>Financial instruments</i>				
Trading liabilities	-	241	-	241
	-	<b>241</b>	-	<b>241</b>
<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	58,250	58,250
<i>Financial instruments</i>				
Trading assets	6,280	5,996	-	12,276
Investment and loaned securities <sup>(1)</sup>	65,734	-	-	65,734
	<b>72,014</b>	<b>5,996</b>	<b>58,250</b>	<b>136,260</b>
<i>Financial instruments</i>				
Trading liabilities	-	1,795	-	1,795
	-	<b>1,795</b>	-	<b>1,795</b>

<sup>(1)</sup> As at 31 March 2017, securities that are not publicly traded amounting to nil have been measured at cost and are excluded from the table (2016 – None).

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information****As of and for the period ended 31 March 2017***(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.

<b>31 March 2017</b>	<b>Asset management and treasury</b>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Non-financial services</b>	<b>Total</b>
Interest income	2,501	24,949	568	138	28,156
Interest expense	(16,852)	(389)	-	-	(17,241)
Internal transfer rate income/(expense)	13,282	(13,166)	(116)	-	-
<b>Net interest income</b>	<b>(1,069)</b>	<b>11,394</b>	<b>452</b>	<b>138</b>	<b>10,915</b>
Net fee and commission income / (expense)	(6)	880	(116)	-	758
Net trading income and foreign exchange gain, net	592	(66)	-	5	531
Other operating income	200	(1,478)	1,530	170	422
<b>Total operating income</b>	<b>(283)</b>	<b>10,730</b>	<b>1,866</b>	<b>313</b>	<b>12,626</b>
Net impairment loss on financial and non-financial assets	(598)	1,674	882	-	1,958
Total operating expenses (unallocated + allocated)	(2,036)	(6,014)	(4,660)	(404)	(13,114)
<b>Profit / (loss) before income tax</b>	<b>(2,917)</b>	<b>6,390</b>	<b>(1,912)</b>	<b>(91)</b>	<b>1,470</b>
Income tax	(189)	-	-	72	(117)
<b>Net profit/(loss) for the period</b>	<b>(3,106)</b>	<b>6,390</b>	<b>(1,912)</b>	<b>(19)</b>	<b>1,353</b>
<b>Total assets</b>	<b>299,003</b>	<b>1,114,254</b>	<b>16,726</b>	<b>6,111</b>	<b>1,436,094</b>
<b>Total liabilities</b>	<b>1,005,393</b>	<b>67,433</b>	<b>1,099</b>	<b>249</b>	<b>1,074,174</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Condensed Consolidated Interim Financial Information  
As of and for the period ended 31 March 2017***(Currency - In thousands of Turkish Lira)***14. Operating segments (continued)**

<b>31 March 2016</b>	<b>Asset management and treasury</b>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Non-financial services</b>	<b>Total</b>
Interest income	6,082	25,614	3,723	-	35,419
Interest expense	(19,460)	(320)	-	-	(19,780)
Intersegment revenue	17,307	(16,152)	(1,155)	-	-
<b>Net interest income</b>	<b>3,929</b>	<b>9,142</b>	<b>2,568</b>	<b>-</b>	<b>15,639</b>
Net fee and commission income	(43)	1,697	(11)	-	1,643
Net trading income and foreign exchange gain, net	218	70	-	3	291
Other operating income	247	722	375	-	1,344
<b>Total operating income</b>	<b>4,351</b>	<b>11,631</b>	<b>2,932</b>	<b>3</b>	<b>18,917</b>
Net impairment loss on financial and non-financial assets and on consolidation goodwill	(313)	722	(1,278)	-	(869)
Total operating expenses	(4,758)	(5,763)	(4,462)	(76)	(15,059)
<b>Profit / (loss) before income tax</b>	<b>(720)</b>	<b>6,590</b>	<b>(2,808)</b>	<b>(73)</b>	<b>2,989</b>
Income tax	(3,599)	-	-	13	(3,586)
<b>Net profit/(loss) for the period</b>	<b>(4,319)</b>	<b>6,590</b>	<b>(2,808)</b>	<b>(60)</b>	<b>(597)</b>
<b>Total assets <sup>(1)</sup></b>	<b>236,320</b>	<b>1,317,318</b>	<b>127,325</b>	<b>6,216</b>	<b>1,687,179</b>
<b>Total liabilities <sup>(1)</sup></b>	<b>1,224,092</b>	<b>100,766</b>	<b>3,402</b>	<b>674</b>	<b>1,328,934</b>

<sup>(1)</sup> Total assets and total liabilities balance are as of 31 December 2016.

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

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

**As of and for the period ended 31 March 2017**

*(Currency - In thousands of Turkish Lira)*

### **15. Rating**

As at 31 March 2017, the Bank's ratings assigned by international rating agency, Fitch Ratings is as follows:

#### **Fitch Ratings, February 2017**

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

### **16. Subsequent and other events**

None.