

**Bankpozitif Kredi ve Kalkınma  
Bankası Anonim Şirketi**

**Consolidated Financial Statements  
As at and for the Year Ended  
31 December 2018  
With Independent Auditors' Report**

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

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bankpozitif Kredi ve Kalkınma Bankası A.Ş.

### Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("the Bank"), and its subsidiary (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Emphasis of Matter*

We draw attention to Note 26 to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the Bank by non-performing corporate customer of the Bank. Our opinion is not modified in respect of this matter.



*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

***Impairment of loans and finance lease receivables ("loans")***

Refer to "Significant accounting policies" Note 3 to the consolidated financial statements relating to the impairment of loans.

<b><i>The key audit matter</i></b>	<b><i>How the matter was addressed in our audit</i></b>
<p>As of 31 December 2018, loans comprise 74% of the Group's total assets.</p> <p>The Group recognizes its loans in accordance with the IFRS 9 Financial Instruments standard ("Standard").</p> <p>As of 1 January 2018, due to the adoption of the Regulation and Standard, in determining the impairment of loans it is started to apply "expected credit loss model" rather than the "incurred loss model". The new model contains significant assumptions and estimates.</p> <p>The significant assumptions and estimates of the Group's management are as follows:</p> <ul style="list-style-type: none"> <li>• significant increase in credit risk,</li> <li>• incorporating the forward looking macroeconomic information in calculation of credit risk,</li> <li>• design and implementation of expected credit loss model.</li> </ul> <p>The determination of the impairment of loans measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans measured at amortised cost according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets.</p> <p>The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions.</p> <p>Provisions set aside for the Group are modeled on prospective expectations by means of data collection in the past and the current period.</p> <p>Impairment on loans measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.</p>	<p>Our procedures for testing e impairment of loans included below :</p> <ul style="list-style-type: none"> <li>• We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of information risk management specialists.</li> <li>• We evaluated the Group's contractual cash flow tests prepared by the Bank for financial assets and the results of the tests have been evaluated for compliance with credit agreements.</li> <li>• We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard.</li> <li>• We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialists.</li> <li>• We performed loan reviews for selected loan samples which includes detailed examination of loan files and related information and testing their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables.</li> <li>• We evaluated the adequacy of the expected credit loss calculations by selecting sample for the loans which are assessed on individual basis.</li> <li>• We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters recalculated.</li> <li>• We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method.</li> <li>• We evaluated the assessments which are used in determining the significant increase in credit risk.</li> <li>• Additionally, we also evaluated the adequacy of the consolidated financial statement disclosures related to impairment provisions.</li> </ul>



### *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Consolidated Statement of Financial Position****As at 31 December 2018***(Currency - In thousands of Turkish Lira)*

		<b>Audited</b>	<b>Audited</b>
		<b>31 December 2018</b>	<b>31 December 2017</b>
<b>ASSETS</b>			
Cash and balances with central banks	10	2,602	6
Due from banks and financial institutions	10	2,181	9,643
Interbank and other money market placements	10	-	235,745
Reserve deposits at central banks	11	72,466	69,512
Trading assets	12	13,092	7,486
Investment securities	13	87,517	60,486
Loaned securities	13	593	14,178
Loans and finance lease receivables	14	722,976	928,707
Property, plant and equipment	15	2,417	2,742
Intangible assets	16	6,239	7,381
Deferred tax assets	9	2,164	3,765
Investment property	17	46,279	58,279
Other assets	18	12,815	35,106
<b>Total assets</b>		<b>971,341</b>	<b>1,433,036</b>
<b>LIABILITIES</b>			
Other money market deposits	19	590	30,177
Trading liabilities	12	6,775	4,426
Funds borrowed	20	613,380	339,028
Debt securities issued	21	-	637,743
Other liabilities	22	28,604	48,031
Provisions	23	11,640	7,047
<b>Total liabilities</b>		<b>660,989</b>	<b>1,066,452</b>
<b>EQUITY</b>			
Share capital and share premium	24	379,114	379,114
Legal reserves	24	16,168	16,168
Available-for-sale reserve, net of tax	24	-	4,918
Fair value reserve of debt instruments at fair value through other comprehensive income (FVOCI), net of tax	24	9,521	-
Accumulated losses		(94,451)	(33,616)
<b>Total equity</b>		<b>310,352</b>	<b>366,584</b>
<b>Total equity and liabilities</b>		<b>971,341</b>	<b>1,433,036</b>

The accompanying notes are an integral part of these consolidated financial statements.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Consolidated Statement of Profit or Loss  
For the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)*

		<b>Audited</b>	<b>Audited</b>
	<i>Note</i>	<b>2018</b>	<b>2017</b>
<b>Interest income</b>			
Interest income on loans and finance leases		71,712	90,628
Interest income on deposits with other banks and financial institutions		4,963	3,394
Interest income on investment securities		6,878	4,236
Interest income on interbank and other money market placements		4,204	10,768
Other interest income		28,413	1,487
<b>Total interest income</b>		<b>116,170</b>	<b>110,513</b>
<b>Interest expense</b>			
Interest expense on other money market deposits		(2,009)	(473)
Interest expense on funds borrowed		(33,411)	(41,285)
Interest expense on debt securities issued		(20,947)	(22,368)
Other interest expense		(7,838)	(6,143)
<b>Total interest expense</b>		<b>(64,205)</b>	<b>(70,269)</b>
<b>Net interest income</b>		<b>51,965</b>	<b>40,244</b>
Fees and commission income	4	8,105	5,873
Fees and commission expense	4	(667)	(1,609)
<b>Net fee and commission income</b>	4	<b>7,438</b>	<b>4,264</b>
Net trading income and foreign exchange gain	5, 24	5,254	1,692
Other operating income	6	2,034	1,737
<b>Total operating income</b>		<b>66,691</b>	<b>47,937</b>
<b>Net impairment reversal/(loss) on financial assets</b>	14	<b>(38,797)</b>	<b>5,781</b>
Personnel expenses	7	(24,273)	(22,331)
Depreciation and amortisation	15, 16	(2,272)	(2,714)
Administrative expenses	8	(21,486)	(19,437)
Taxes other than on income		(611)	(763)
Other expenses		(16,861)	(2,747)
<b>Total operating expenses</b>		<b>(65,503)</b>	<b>(47,992)</b>
<b>Profit/(loss) before income tax</b>		<b>(37,609)</b>	<b>5,726</b>
Income tax	9	(392)	(1,074)
<b>Profit/(loss) for the year</b>		<b>(38,001)</b>	<b>4,652</b>
<b>Earnings per share</b>		<b>(0.0000113)</b>	<b>0.0000014</b>

The accompanying notes are an integral part of these consolidated financial statements.



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the year ended 31 December 2018**

(Currency - In thousands of Turkish Lira)

	<b>Audited</b>	<b>Audited</b>
	<b>2018</b>	<b>2017</b>
<b>Profit/(loss) for the year</b>	<b>(38,001)</b>	<b>4,652</b>
<b>Other comprehensive income</b>		
<i>Items that will never be reclassified to profit or loss</i>		
Re-measurement of employee termination benefits	(2,075)	(169)
Deferred tax	418	34
	<b>(1,657)</b>	<b>(135)</b>
<i>Items that are or may be reclassified to profit or loss</i>		
Net change in fair value of available-for-sale financial assets	-	4,794
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	(16)
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI)	5,966	-
Net amount reclassified to the income statement on sale of debt instruments at FVOCI	(154)	-
Deferred tax	(1,209)	(956)
	<b>4,603</b>	<b>3,822</b>
<b>Other comprehensive income for the year, net of income tax</b>	<b>2,946</b>	<b>3,687</b>
<b>Total comprehensive income/(expense) for the year</b>	<b>(35,055)</b>	<b>8,339</b>

The accompanying notes are an integral part of these consolidated financial statements.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Consolidated Statement of Changes in Equity For the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Share premium	Adjustments to share capital	Legal reserves	Available-for-sale reserve, net of tax	Accumulated losses	Total
<b>At 1 January 2017</b>		337,292	20,121	21,701	16,168	1,096	(38,133)	358,245
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	-	4,652	4,652
<b>Other comprehensive income</b>								
Remeasurements of defined benefit liability, net of tax	23	-	-	-	-	-	(135)	(135)
Net change in fair value of available-for-sale financial assets, net of tax	24	-	-	-	-	3,822	-	3,822
<b>Total other comprehensive income</b>		-	-	-	-	3,822	(135)	3,687
<b>Total comprehensive income for the year</b>		-	-	-	-	3,822	4,517	8,339
<b>At 31 December 2017</b>		337,292	20,121	21,701	16,168	4,918	(33,616)	366,584
	Note	Share capital	Share premium	Adjustments to share capital	Legal reserves	Fair value reserve of debt instruments at FVOCI, net of tax	Accumulated losses	Total
<b>At 1 January 2018</b>		337,292	20,121	21,701	16,168	4,918	(33,616)	366,584
Changes on initial application of IFRS 9	3.25	-	-	-	-	-	(21,177)	(21,177)
<b>Restated balance at 1 January 2018</b>		337,292	20,121	21,701	16,168	4,918	(54,793)	345,407
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	-	(38,001)	(38,001)
<b>Other comprehensive income</b>								
Remeasurements of defined benefit liability, net of tax	23	-	-	-	-	-	(1,657)	(1,657)
Net change in fair value of financial assets measured at fair value through other comprehensive income (FVOCI), net of tax	24	-	-	-	-	4,603	-	4,603
<b>Total other comprehensive income</b>		-	-	-	-	4,603	(1,657)	2,946
<b>Total comprehensive income for the year</b>		-	-	-	-	4,603	(39,658)	(35,055)
<b>At 31 December 2018</b>		337,292	20,121	21,701	16,168	9,521	(94,451)	310,352

The accompanying notes are an integral part of these consolidated financial statements.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Consolidated Statement of Cash Flows****For the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)*

		<b>Audited</b>	<b>Audited</b>
	<i>Note</i>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities</b>			
Interest received		98,357	92,363
Interest paid		(38,565)	(60,716)
Fees and commissions received		6,692	5,984
Fees and commissions paid		(667)	(1,609)
Trading income		4,705	1,549
Recoveries from non-performing loans	14	12,376	18,629
Cash payments to employees and other parties		(20,776)	(30,012)
Cash received from other operating activities		2,034	1,737
Cash paid to other operating activities		(19,010)	(14,674)
		<b>45,146</b>	<b>13,251</b>
Change in banks and financial institutions		-	3,401
Change in trading assets		(836)	1,598
Change in reserve deposits at central banks		(2,754)	83,188
Change in loans and finance lease receivables		99,160	291,435
Change in other assets		21,892	445
Change in interbank and other money market deposits		(29,561)	12,269
Change in other liabilities		(17,913)	(5,853)
<b>Net cash from operating activities</b>		<b>115,134</b>	<b>399,734</b>
<b>Cash flows from investing activities</b>			
Purchases of investment securities	13	(41,264)	(25,792)
Proceeds from sale and redemption of investment securities	13	38,027	25,301
Purchases of property and equipment	15	(776)	(1,266)
Proceeds from the sale of premises and equipment	15	14	42
Purchases of intangible assets	16	(38)	(1,298)
<b>Net cash used in investing activities</b>		<b>(4,037)</b>	<b>(3,013)</b>
<b>Cash flows from financing activities</b>			
Proceeds from funds borrowed	20	1,508,764	101,724
Repayment of funds borrowed	20	(1,235,495)	(84,987)
Proceeds from debt securities issued	21	354,000	759,249
Repayment of debt securities issued	21	(981,124)	(998,987)
<b>Net cash used in financing activities</b>		<b>(353,855)</b>	<b>(223,001)</b>
Effect of net foreign exchange difference on cash and cash equivalents		2,147	1,557
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(240,611)</b>	<b>175,277</b>
Cash and cash equivalents at 1 January	10	245,394	70,117
<b>Cash and cash equivalents at 31 December</b>	<b>10</b>	<b>4,783</b>	<b>245,394</b>

The accompanying notes are an integral part of these consolidated financial statements.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **Notes to the consolidated financial statements**

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **1. Corporate information**

#### **General**

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

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

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

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 1. Corporate information (continued)

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

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

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

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

As at 31 December 2018, the Bank provides services through its head office. As at 31 December 2018, the number of employees for the Bank and its consolidated subsidiaries are 63 and 2, respectively (31 December 2017 – 79 and 2).

For the purposes of the consolidated financial statements, 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 December 2018 and 31 December 2017 are as follows:

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

### 2. Basis of preparation

#### 2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank and its subsidiary which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Commercial Code and Tax Legislation.

The consolidated financial statements as at 31 December 2018 of the Bank are authorised for issue by the management on 1 March 2019. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

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

#### **2.1 Statement of compliance** *(continued)*

In preparation of the consolidated financial statements of the Group, the same accounting policies except than IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of 31 December 2018, noted below.

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

IFRS 15 and other new IFRS/IAS amendments in effect do not have significant impact on the accounting policies, financial position and performance of the Group.

#### **2.2 Basis of measurement**

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

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

#### **2.3 Functional and presentation currency**

These consolidated financial statements are presented in TL, which is the Bank’s functional currency. Except as indicated, financial statements presented in TL has been rounded to the nearest thousand.

#### **2.4 Use of estimates and judgements**

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

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

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at end for the year ended 31 December 2017 except than estimations used for expected credit loss calculation according to IFRS 9 explained in Note 2 – Basis of preparation, Note 3 – Financial assets and liabilities - Explanations on expected credit loss.

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

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

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

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

##### **Key sources of estimation uncertainty**

###### *Income taxes*

The Group is subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 31 December 2018, the Group does not have any net current tax liabilities (31 December 2017– None).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly. As at 31 December 2018, the Group carries a net deferred tax assets amounting to TL 2,164 (31 December 2017 – TL 3,765 deferred tax assets).

Deferred tax assets have not been recognised in respect of the remaining tax losses amounting to TL 79,694, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom (31 December 2017 – TL 57,501).

###### *Employee termination benefits*

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The carrying value of employee termination benefit provisions as at 31 December 2018 is TL 3,392 (31 December 2017 – TL 1,206).

#### **2.5 Changes in accounting policies**

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

#### **2.6 Other disclosures**

The accounting policies and the valuation principles applied in the preparation of the accompanying financial statements are explained in Notes 3.2 to 3.25.



# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### 3.1 Basis of consolidation

##### *i) Subsidiaries*

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. There is no negative goodwill recognised by the Group. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Bank, using consistent accounting policies.

##### *(ii) Transactions eliminated on consolidation*

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 3.2 Foreign currency

##### *i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of equity instruments – fair value through other comprehensive income or a financial liability designated as a hedge of the net investment in a foreign operation.

Foreign currency translation rates used by the Group are as follows:

	USD / TL	EUR / TL
	(full)	(full)
31 December 2018	5.2609	6.0280
31 December 2017	3.7719	4.5155

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

#### **3.3 Interest**

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income and expense presented in the statement of profit or loss and other comprehensive income include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for investment securities – fair value through other comprehensive income calculated on an effective interest basis,
- interest income and expense arising from currency swaps, cross currency swaps, futures and interest rate cap/floor agreements which are presented as other interest income and expense in the accompanying consolidated financial statements.

#### **3.4 Fees and commission**

Fees and commission are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Fees for bank transfers and other banking transaction services are recorded as income when collected.

#### **3.5 Net trading income**

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

#### **3.6 Dividends**

Dividends are recognised when the shareholders' right to receive the payments is established.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

#### **3.7 Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax losses can be utilised.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

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

## **Notes to the Consolidated Financial Statement**

### **As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

#### **3. Significant accounting policies *(continued)***

##### **3.8 Financial assets and liabilities**

###### ***Recognition***

The Group recognises a financial asset or financial liability in its statement of financial position when and only when it becomes a party to the contractual provisions of the instrument. It shall be recognised a financial asset or a financial liability in its statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are recognized at the settlement date.

###### ***Assessment of the Business Model***

As per IFRS 9, the business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

During assessment of the business model for management of financial assets, it must be considered all relevant evidence that is available at the date of the assessment. Such relevant evidence includes below:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Assessment of the business model is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

If cash flows are realised in a way that is different from the expectations at the date that it is assessed the business model, that does not give rise to a prior period error in the financial statements nor does it change the classification of the remaining financial assets held in that business model as long as it is considered all relevant information that was available at the time that it made the business model assessment. However, when the business model is assessed for newly originated or newly purchased financial assets, it must be considered information about how cash flows were realised in the past, along with all other relevant information.

The business models are divided into three categories. These categories are defined below:

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

#### **3.8 Financial assets and liabilities (continued)**

##### ***Assessment of the Business Model (continued)***

- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: it may be held financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are recognized under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Other business models: financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

##### ***Classification Methodology***

The financial assets included within the scope of IFRS 9 are determined and the SPPI test based on the financial assets and sub-products as well as the Business Model shall be determined on the basis of IFRS 9 standards.

Financial assets held by the Bank in line with the management model for the purpose of collecting contractual cash flows consisting of only the interest and principal should be recognized by using the amortized cost method if such contractual cash flows consist of only the interest and principal. The following criteria should be taken into consideration for the financial assets evaluated in this context:

- (a) frequency and sales amount of sales made in previous periods,
- (b) whether the sales were made close to the maturity date of the financial asset,
- (c) causes of sales and future forecasts for sales.

##### ***Measurement Categories of Financial Assets and Liabilities***

As of 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in three main categories as listed below:

- Financial assets measured at amortized cost,
- Financial assets measured at fair value through other comprehensive income,
- Equity instruments measured at fair value through other comprehensive income,
- Financial assets measured at fair value through profit or loss.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3. Significant accounting policies (continued)

#### 3.8 Financial assets and liabilities (continued)

##### *Explanations on Financial Assets*

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

- a) Financial assets at the fair value through profit or loss: “Financial assets at fair value through profit/loss” are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short- term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.
- b) Financial Assets at Fair Value Through Other Comprehensive Income: In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. “Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are recognized under the “Accumulated other comprehensive income or expense to be reclassified through profit or loss” under shareholders’ equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. During initial recognition an entity may irrevocably elect to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3. Significant accounting policies (continued)

#### 3.8 Financial assets and liabilities (continued)

##### *Explanations on Financial Assets (continued)*

- c) Equity Instruments Measured at Fair Value Through Other Comprehensive Income: At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

- d) Financial Assets Measured at Amortized Cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost. Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is recognized under income statement.
- e) Derivative Financial Assets: The major derivative instruments utilized by the Group are foreign currency and interest rate swaps, cross currency swaps, currency options and currency forwards. Derivative financial instruments of the Group are classified under IFRS 9, "Derivative Financial Assets Designated at Fair Value through Profit or Loss". Payables and receivables arising from the derivative instruments are recorded in the off-balance sheet accounts at their contractual values. Derivative transactions are valued at their fair values subsequent to their acquisition. In accordance with the classification of derivative financial instruments, if the fair value is positive, the amount is classified as "Derivative Financial Assets Designated at Fair Value Through Profit or Loss" or "Derivative Financial Assets Designated at Fair Value Through Other Comprehensive Income", if the fair value is negative, the amount is classified as "Derivative Financial Liabilities Designated at Fair Value Through Profit or Loss" or "Derivative Financial Liabilities Designated at Fair Value Through Other Comprehensive Income". The fair value differences of derivative financial instruments are recognized in the income statement under trading profit/loss line in profit/loss from derivative financial transactions.
- f) Loans: Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method". Group's loans are recognized under the "Measured at Amortized Cost" account.

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

## **Notes to the Consolidated Financial Statement**

### **As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

#### **3. Significant accounting policies *(continued)***

##### **3.8 Financial assets and liabilities *(continued)***

###### ***Derecognition of financial instruments***

###### ***Derecognition of financial assets due to change in the contractual terms***

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a “new” financial asset.

When it is assessed the characteristics of the new contractual terms of the financial asset, it is also evaluated the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognised a modification gain or loss in profit or loss.

###### ***Derecognition of financial liabilities***

Where all risks and rewards of ownership of the asset have not been transferred to another party and it is retained control of the asset, it is continued to be recognised the remaining portion of the asset and liabilities arising from such asset.

When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

###### ***Derecognition of a financial asset without any change in the contractual terms***

The asset is derecognised if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party.

Except for equity instruments measured at FVOCI, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognised in profit or loss.

A financial liability (or a part of a financial liability) shall be removed from the statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.



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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

(Currency - In thousands of Turkish Lira)

### **3. Significant accounting policies (continued)**

#### **3.8 Financial assets and liabilities (continued)**

##### ***Reclassification of financial instruments***

It shall be reclassified all affected financial assets based on classification principles of IFRS 9 when, and only when, it is changed the business model for managing financial assets.

It is fulfilled the requirements of reclassification during transition to IFRS 9 and such reclassification details are presented in transition disclosures.

##### ***Restructuring and refinancing of financial instruments***

It may be changed the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

##### ***Explanations on Expected Credit Loss***

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

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

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

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

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3. Significant accounting policies (continued)

#### 3.8 Financial assets and liabilities (continued)

##### *Prospective Macroeconomic Information*

Any macroeconomic expectations within the scope of the IFRS 9 directly affect the provisions (Expected Credit Loss). The Bank uses progressive macroeconomic information in its significant increase in credit risk assessment and the anticipated credit loss calculation.

In order to generate estimates based on macroeconomic reflections, the Bank makes its forecasts based on a model that detects the past relationships between the credit risk parameters and the macroeconomic variables. While making such forecasts, the Bank mainly uses the unemployment rate and credit change rate data as the macroeconomic variable.

As a result, the provisions calculated may change considering the prospective macroeconomic expectations. The Bank regularly reviews the parameters it uses in its calculations and updates them when necessary.

##### *Significant Increase in Credit Risk*

In determining the significant increase in credit risk, the Bank performs qualitative and quantitative assessments.

##### Quantitative Assessment

In the event that any of the following conditions occur as a result of a qualitative assessment, the Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk):

- receivables overdue for more than 30 days as of the reporting date,
- receivables that are monitored closely,
- any change in a payment plan due to refinancing, restructuring or a preferential agreement when the loan is considered not in default or not excluded from the financial statements as long as the change is not a result of any commercial reasons.

##### Qualitative Assessment

The quantitative reason explaining the significant increase in credit risk is based on the comparison of the credit rating of the borrower calculated at the opening of the loan and the credit rating assigned to the same loan at the reporting date.

The Bank classifies the credit receivable within the scope of close monitoring if there is a decrease in the borrower's predetermined level as a result of the quantitative evaluation.

##### *Low Credit Risk*

In accordance with IFRS 9, in case the risk of default of a financial instrument is low, the borrower has a strong structure to meet its contractual cash flow obligations in the short term and any negative changes in economic conditions and operating conditions in the longer term reduce the borrower's ability to fulfill its contractual cash-flow obligations only to a certain extent, the Bank considers the credit risk of such financial instrument to be low.

The Bank does not conclude that a financial instrument has a low credit risk if only the risk of loss related to such financial instrument is considered to be low due to the value of the collateral and the credit risk of the financial instrument is not considered low without such collateral. Additionally, the Bank does not assess any financial instruments as having a low credit risk only because such financial instruments are less risky compared to any other financial instruments of the Bank or the credit risk of the region where the business operates.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

### As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

#### 3. Significant accounting policies (continued)

##### 3.8 Financial assets and liabilities (continued)

###### *Low Credit Risk (continued)*

The Bank assumes that the credit risk of a financial instrument does not increase significantly after the initial recognition of it in the financial statements if it is determined that a financial instrument has a low credit risk at the reporting date.

The Bank applies a low credit risk assessment only for its securities portfolio.

###### *Use of Judgements and Estimates*

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at end for the year ended 31 December 2017 except estimations used for expected credit loss calculation according to IFRS 9 explained in Note 3 – Significant Accounting Policies - Transition disclosures of IFRS 9 – Financial instruments, Explanations on expected credit loss.

###### *Measurement of fair values*

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

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

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

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

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in Note 29 – fair value of financial and non-financial instruments.

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

## **Notes to the Consolidated Financial Statement**

### **As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

#### **3. Significant accounting policies *(continued)***

##### **3.8 Financial assets and liabilities *(continued)***

###### ***Repurchase and resale transactions***

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are reclassified in the consolidated financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

##### **3.9 Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

##### **3.10 Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in consolidated statement of income. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

##### **3.11 Due from banks and financial institutions and loans and finance lease receivables**

"Due from banks and financial institutions" and "Loans and finance lease receivables" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial assets designated at fair value through profit or loss". After initial measurement, amounts due from banks and financial institutions and loans and finance lease receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in "Interest income" in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income in "Net impairment loss on financial assets".

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3. Significant accounting policies (continued)

#### 3.12 Property, plant and equipment

##### *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

##### *Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### *Depreciation*

Depreciation is recognised in the consolidated statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful lives for the current and comparative periods are as follows:

▪ buildings	50 years
▪ office equipment, furniture and fixtures	4-10 years
▪ motor vehicles	5-6 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

#### 3.13 Intangible assets

##### *i) Goodwill*

Goodwill arises on the acquisition of subsidiaries or businesses.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in consolidated statement of income.

##### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies** *(continued)*

#### **3.12 Property, plant and equipment** *(continued)*

#### **3.13 Intangible assets** *(continued)*

##### *ii) Software*

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in consolidated statement of income on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to fifteen years.

#### **3.14 Assets held for sale**

An asset (or a disposal group) classified as asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

#### **3.15 Investment property**

Land and buildings that are held to earn rental income or for capital appreciation supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property and carried at fair value where the change in fair value is recognised in the statement of income.

#### **3.16 Leases**

##### **The Group as lessee**

##### *Operating leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies (continued)**

#### **3.16 Leases (continued)**

##### **The Group as lessee**

###### *Finance leases*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

##### **The Group as lessor**

###### *Finance leases*

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

#### **3.17 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in consolidated statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. In the current year no impairment loss has been recognised for the goodwill.

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

## **Notes to the Consolidated Financial Statement**

### **As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

#### **3. Significant accounting policies *(continued)***

##### **3.18 Deposits, funds borrowed and debt securities issued**

The Bank is not entitled to collect customer deposits. Money market deposits, funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

##### **3.19 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

##### **3.20 Employee benefits**

###### ***(i) Reserve for employee severance payments***

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

###### ***(ii) Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

###### ***(iii) Other benefits***

The bonus provision which was calculated on defined criteria and targets for the upper-management and employees presented as provision in the accompanying consolidated financial statements.

##### **3.21 Fiduciary assets**

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.



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

## **Notes to the Consolidated Financial Statement**

### **As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

#### **3. Significant accounting policies (continued)**

##### **3.22 Segment reporting**

An operating segment is a component of the Group that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial statements is available.

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

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

###### **IFRS 16 Leases**

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

###### **IFRIC 23 Uncertainty over Income Tax Treatments**

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group assessed the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

###### **The revised Conceptual Framework**

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3. Significant accounting policies (continued)

#### 3.23 New standards and interpretations not yet adopted (continued)

##### *Annual Improvements to IFRSs 2015-2017 Cycle*

##### **Improvements to IFRSs**

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

##### *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

##### *IAS 12 Income Taxes*

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

##### *IAS 23 Borrowing Costs*

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

##### **Amendments to IAS 28- Long-term Interests in Associates and Joint Ventures**

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The Group does not expect that application of these amendments to IAS 28 will have significant impact on its consolidated financial statements.

##### **Amendments to IFRS 9 - Prepayment Features With Negative Compensation**

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group assessed the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **3. Significant accounting policies *(continued)***

#### **3.23 New standards and interpretations not yet adopted *(continued)***

##### **Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement**

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The Group does not expect that application of these amendments to IAS 19 will have significant impact on its consolidated financial statements.

##### **Amendments to IAS 1 and IAS 8 - Definition of Material**

In October 2018 the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group does not expect that application of these amendments to IAS 1 and IAS 8 will have significant impact on its consolidated financial statements.

##### **Amendments to IFRS 3 - Definition of a Business**

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The Group does not expect that application of these amendments to IFRS 3 will have significant impact on its consolidated financial statements.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3. Significant accounting policies (continued)

#### 3.24 Transition disclosures of IFRS 9 – Financial instruments

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

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

#### 3.25 Explanations on Prior Period Accounting Policies Not Valid for the Current Period

The Group has started to apply “IFRS 9 Financial Instruments” instead of “IAS 39 Financial Instruments: Accounting and Measurement” on 1 January 2018. With the transition to the mentioned application the accounting policies which are not valid are given below.

##### i. Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss are those assets that the Group acquires principally for the purpose of selling in the near term, or holds as part of a portfolio that is managed together for short term profit or position taking. Derivatives are also classified financial assets at fair value through profit or loss unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 3.25 Explanations on Prior Period Accounting Policies Not Valid for the Current Period *(continued)*

#### ii. Financial Assets Available for Sale

Financial assets available for sale represent non-derivative financial assets other than bank loans and receivables, held to maturity investments and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based on the fair value including transaction costs. The amount arising from the difference between cost and amortised value is recognised through income statement by using the internal rate of return. Unrealised gains and losses arising from changes in fair value of the financial assets available for sale are not recognised in the income statement, they are recognised in the “Fair value reserves” until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold.

#### iii. Held to Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. There has been no tainting in the held-to-maturity portfolio. Held to maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment in value. Interest earned whilst holding held to maturity securities is reported as interest income. When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortised cost. Any previous gain or losses on those assets that have been recognised in equity are amortised over the remaining life of the held-to-maturity investments using the effective interest method.

#### iv. Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortised cost using the effective interest method less any impairment in value. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

#### v. Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***4. Net fee and commission income**

	<b>2018</b>	<b>2017</b>
<b>Fee and commission income</b>		
Letters of guarantee, credit and other guarantees	4,464	4,134
Credit related fees and commissions	3,429	1,635
Banking service commissions	10	20
Other	202	84
<b>Total fee and commission income</b>	<b>8,105</b>	<b>5,873</b>
<b>Fee and commission expense</b>		
Corresponding bank fees	(336)	(155)
Other	(331)	(1,454)
<b>Total fee and commission expense</b>	<b>(667)</b>	<b>(1,609)</b>
<b>Net fee and commission income</b>	<b>7,438</b>	<b>4,264</b>

**5. Net trading income and net foreign exchange gain**

	<b>2018</b>	<b>2017</b>
Income from trading assets, net	4,022	1,014
Income from investment securities, net	683	535
Foreign exchange gains, net	549	143
<b>Total</b>	<b>5,254</b>	<b>1,692</b>

**6. Other operating income**

	<b>2018</b>	<b>2017</b>
Rental income	-	776
Other (*)	2,034	961
<b>Total</b>	<b>2,034</b>	<b>1,737</b>

(\*) As at 31 December 2018, TL 1,235 (31 December 2017: None) other operating income is recognised for banking and insurance transaction tax amount according to a restructuring protocol signed with a corporate customer.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***7. Personnel expenses**

	<b>2018</b>	<b>2017</b>
Wages and salaries	17,249	15,694
Other fringe benefits	3,951	4,211
Compulsory social security obligations	2,345	2,203
Provision for employee termination and vacation benefits	728	223
<b>Total</b>	<b>24,273</b>	<b>22,331</b>

The number of employees for the years is:

	<b>2018</b>	<b>2017</b>
The Parent Bank	63	79
Subsidiary	2	2
<b>Total</b>	<b>65</b>	<b>81</b>

**8. Administrative expenses**

	<b>2018</b>	<b>2017</b>
Information technology expenses	4,669	5,047
Consultancy expenses	3,680	2,946
Operating lease expenses	3,278	2,559
Communication expenses	2,499	2,237
Insurance expenses	1,387	1,019
Lightening expenses	886	512
Human resources intermediary expenses	745	944
Traveling expenses	661	579
Lawyers expenses	606	760
Transportation expenses	432	498
Consumer trade decision expenses	426	549
Advertising expenses	135	179
Others	2,082	1,608
<b>Total</b>	<b>21,486</b>	<b>19,437</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 9. Taxation

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

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twentyfifth day of the fourth month following the year-end reporting date and taxes must be paid in one instalment by the end of the fourth month. In Turkey, the tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial position, has been calculated on a separate-entity basis.

In Turkey, the tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provision for taxes, as reflected in the consolidated financial position, has been calculated on a separate-entity basis.

As at 31 December 2018, the Group does not have prepaid income taxes are netted off with the current tax liability (31 December 2017: None).

#### Income tax recognised in the statement of profit or loss

The components of income tax expense as stated below:

	2018	2017
Current tax (expense) / income	1,209	955
Deferred tax (expense) / income	(1,601)	(2,029)
<b>Income tax in the statement of profit or loss</b>	<b>(392)</b>	<b>(1,074)</b>

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the years ended 31 December 2018 and 2017 is as follows:

	2018	2017
Profit/(loss) before income tax	(37,609)	5,726
Income tax using the domestic corporation tax rate 22%	8,274	(1,145)
Tax-exempt income	(99)	71
Reversal of previously recognised tax losses	(3,146)	-
Current year losses for which no deferred tax asset is recognized	(990)	-
Change in unrecoverable tax losses	(4,431)	-
<b>Total income tax expense in the statement of profit or loss</b>	<b>(392)</b>	<b>(1,074)</b>



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)****Deferred tax assets and liabilities****Recognised deferred tax assets and liabilities**

The deferred tax included in the consolidated financial position and changes recognized in the income tax expense are as follows:

	<b>Deferred tax asset 2018</b>	<b>Deferred tax liability 2018</b>	<b>Deferred tax asset 2017</b>	<b>Deferred tax liability 2017</b>
Derivative financial instruments	1,490	(1,297)	885	(1,038)
Liability for defined benefit plans	1,866	-	1,376	-
Property and equipment	-	(904)	-	(774)
Tax losses	2,096	-	3,146	-
Investment property	-	(982)	-	(982)
Others	(71)	(34)	1,443	(291)
<b>Deferred tax asset / (liability)</b>	<b>5,381</b>	<b>(3,217)</b>	<b>6,850</b>	<b>(3,085)</b>
<b>Net off of tax</b>	<b>(3,217)</b>	<b>3,217</b>	<b>(3,085)</b>	<b>3,085</b>
<b>Net tax asset / (liability)</b>	<b>2,164</b>	<b>-</b>	<b>3,765</b>	<b>-</b>

As at 31 December 2018, TL 2,096 of deferred tax assets are recognised for TL 10,482 of tax losses of the Group (31 December 2017: TL 3,146 of deferred tax assets and TL 15,730 of tax losses), unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets have not been recognised in respect of the remaining tax losses amounting to TL 79,694 (31 December 2017: TL 57,501).

Reflected as:

	<b>2018</b>	<b>2017</b>
Deferred tax assets	2,164	3,765

Movement of net deferred tax assets can be presented as follows:

	<b>2018</b>	<b>2017</b>
Deferred tax assets, net at 1 January	3,765	5,760
Effect of IFRS 9 transition	791	-
Deferred tax recognised in the statement of income	(2,019)	(2,029)
Deferred income tax recognised in equity	418	34
<b>Deferred tax assets, net at the end of the year</b>	<b>2,164</b>	<b>3,765</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)****Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

	2018	2017
Tax losses	79,694	57,501
	<b>79,694</b>	<b>57,501</b>

**Tax losses carried forward**

Recognised tax losses carried forward expire as follows.

	2018	2017
2022	-	15,730
2023	10,482	-
	<b>10,482</b>	<b>15,730</b>

**10. Cash and cash equivalents**

	2018	2017
Cash and balances with central banks	2,602	6
- Cash on hand	-	-
- Balances with central banks	2,602	6
Due from banks and financial institutions	2,181	9,643
Interbank and other money market placements	-	235,745
<b>Cash and cash equivalents in the statement of financial position</b>	<b>4,783</b>	<b>245,394</b>
Less: Due from banks with original maturities of more than 3 months, restricted balance and accruals	-	-
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>4,783</b>	<b>245,394</b>

**11. Reserve deposits at central banks**

	2018	2017
Turkish Lira	738	568
Foreign currency	71,728	68,944
	<b>72,466</b>	<b>69,512</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***12. Trading assets and liabilities**

	<b>2018</b>	<b>2017</b>
<b>Debt instruments</b>		
Turkish government bonds-TL denominated	7,197	2,298
<b>Derivative transactions</b>		
Derivative financial assets	5,895	5,188
<b>Total trading assets</b>	<b>13,092</b>	<b>7,486</b>
<b>Derivative transactions</b>		
Derivative financial liabilities	6,775	4,426
<b>Total trading liabilities</b>	<b>6,775</b>	<b>4,426</b>

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments that include forwards, currency and interest rate swaps, futures, currency options and interest rate cap/floor agreements. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

	<b>2018</b>		
	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in TL equivalent</b>
Forward purchase contracts	1	-	370
Forward sale contracts	-	-	368
Currency swap purchases	-	2,222	206,991
Currency swap sales	35	1,819	209,268
Interest rate swaps	5,859	2,734	153,443
<b>Total derivative financial instruments</b>	<b>5,895</b>	<b>6,775</b>	<b>570,440</b>
	<b>2017</b>		
	<b>Fair value assets</b>	<b>Fair value liabilities</b>	<b>Notional amount in TL equivalent</b>
Forward purchase contracts	-	6	1,950
Forward sale contracts	-	2	1,959
Currency swap purchases	716	157	280,662
Currency swap sales	1,843	2,248	152,784
Interest rate swaps	2,629	2,013	114,729
<b>Total derivative financial instruments</b>	<b>5,188</b>	<b>4,426</b>	<b>552,084</b>

The Group undertakes all of its transactions in derivative financial instruments with banks and other financial institutions. Notional amounts and contractual maturity analysis of derivative transactions are disclosed in Note 27.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***13. Investment and loaned securities**

	<b>2018</b>
Investment securities - FVOCI	87,517
Loaned securities - FVOCI	593
	<b>88,110</b>
	<b>2017</b>
Investment securities - available-for-sale	60,486
Loaned securities	14,178
	<b>74,664</b>

As at 31 December 2018, the Group does not have any investment securities measured at amortised cost (31 December 2017: the Group does not have any held-to-maturity investment securities).

**Fair value through other comprehensive income- investment securities**

	<b>2018</b>
<b>Fair value through other comprehensive income- investment securities</b>	
<b>Debt instruments</b>	
Turkish government bonds – TL denominated, net	87,517
- <i>Gross amount</i>	87,517
<b>Total investment securities - FVOCI</b>	<b>87,517</b>

**Available-for-sale investment securities**

	<b>2017</b>
<b>Available-for-sale investment securities at fair value</b>	
<b>Debt instruments</b>	
Turkish government bonds – TL denominated, net	60,486
- <i>Gross amount</i>	60,486
<b>Total available-for-sale securities at fair value</b>	<b>60,486</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 13. Investment and loaned securities (continued)

As at 31 December 2018, TL denominated investment securities - fair value through other comprehensive income comprise Turkish Government notes having a maturity range of February 2019 – January 2026.

As at 31 December 2018, investment securities - fair value through other comprehensive income with carrying value of TL 51,038 (31 December 2017, investment securities – available-for-sale with carrying value of TL 56,898) are kept in the Central Bank of Turkey and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for possible stock exchange and money market operations although they are not pledged.

#### Loaned securities

Carrying value of trading securities - fair value through other comprehensive income given as collateral under repurchase agreements which are classified as loaned securities and related liability are as follows:

	<b>2018</b>
Loaned securities from fair value through other comprehensive income	593
Loaned securities from trading securities	-
<b>Total loaned securities</b>	<b>593</b>
<b>Related liability (Note 19)</b>	<b>590</b>
	<b>2017</b>
Loaned securities from available-for-sale	11,273
Loaned securities from trading securities	2,905
<b>Total loaned securities</b>	<b>14,178</b>
<b>Related liability (Note 19)</b>	<b>30,177</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***13. Investment and loaned securities (continued)**

The movement in investment securities - fair value through other comprehensive income (including loaned securities from fair value through other comprehensive income) is summarised as follows:

	<b>2018</b>
Balance at 1 January	74,664
Additions	41,264
Disposals (sale and redemption)	(38,027)
Change in interest accruals	10,209
<b>Balance at year end</b>	<b>88,110</b>

The movement in investment securities – available-for-sale (including loaned securities from available-for-sale ) is summarised as follows:

	<b>2017</b>
Balance at 1 January	65,734
Additions	25,792
Disposals (sale and redemption)	(25,301)
Change in interest accruals	8,439
<b>Balance at year end</b>	<b>74,664</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables**

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

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

As at 31 December 2018, loans and finance lease receivables with floating rates are TL 172,882 (31 December 2017 – TL 151,689) and fixed interest rates are TL 498,334 (31 December 2017 – TL 736,076).

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables (continued)**

Movements in non-performing loans and finance lease receivables:

	<b>31 December 2018</b>	<b>31 December 2017</b>
Non-performing loans and finance lease receivables at 1 January	58,217	76,153
Additions to non-performing loans and finance lease receivables	82,494	2,048
Recoveries	(12,376)	(18,629)
Write-offs <sup>(1)</sup>	(1,772)	(1,355)
<b>Non-performing loans and finance lease receivables at the year end</b>	<b>126,563</b>	<b>58,217</b>

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

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

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

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

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



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***15. Property and equipment**

	<b>Land and buildings</b>	<b>Office equipment, furniture and fixtures</b>	<b>Leasehold improvements</b>	<b>Motor vehicles</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 January 2017	-	15,497	6,380	562	22,439
Additions	-	246	1,020	-	1,266
Disposals	-	(11)	(31)	-	(42)
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>15,732</b>	<b>7,369</b>	<b>562</b>	<b>23,663</b>
Balance at 1 January 2018	-	15,732	7,369	562	23,663
Additions	-	776	-	-	776
Disposals	-	(14)	-	-	(14)
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>16,494</b>	<b>7,369</b>	<b>562</b>	<b>24,425</b>
<b>Depreciation</b>					
Balance at 1 January 2017	-	13,462	6,128	184	19,774
Depreciation charge for the year	-	859	191	97	1,147
Disposals	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>14,321</b>	<b>6,319</b>	<b>281</b>	<b>20,921</b>
Balance at 1 January 2018	-	14,321	6,319	281	20,921
Depreciation charge for the year	-	986	9	97	1,092
Disposals	-	(5)	-	-	(5)
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>15,302</b>	<b>6,328</b>	<b>378</b>	<b>22,008</b>
<b>Carrying amounts</b>					
Balance at 1 January 2017	-	2,035	252	378	2,665
Balance at 31 December 2017	-	1,411	1,050	281	2,742
Balance at 31 December 2018	-	1,192	1,041	184	2,417

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***16. Intangible assets**

	<b>Goodwill</b>	<b>Purchased software</b>	<b>Developed software</b>	<b>Total</b>
<b>Cost</b>				
Balance at 1 January 2017	70,731	27,916	538	99,185
Additions	-	1,298	-	1,298
Disposals	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>70,731</b>	<b>29,214</b>	<b>538</b>	<b>100,483</b>
Balance at 1 January 2018	70,731	29,214	538	100,483
Additions	-	38	-	38
Disposals	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>70,731</b>	<b>29,252</b>	<b>538</b>	<b>100,521</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 January 2017	70,731	20,654	305	91,690
Amortisation charge for the year	-	1,412	-	1,412
Disposals	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>70,731</b>	<b>22,066</b>	<b>305</b>	<b>93,102</b>
Balance at 1 January 2018	70,731	22,066	305	93,102
Amortisation charge for the year	-	1,180	-	1,180
Disposals	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>70,731</b>	<b>23,246</b>	<b>305</b>	<b>94,282</b>
<b>Carrying amounts</b>				
Balance at 1 January 2017	-	7,262	233	7,495
Balance at 31 December 2017	-	7,148	233	7,381
Balance at 31 December 2018	-	6,006	233	6,239

Intangible assets consist of purchased software and developed software.

The carrying amount of goodwill at 31 December 2018 was nil (31 December 2017 – none).

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 17. 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 prepared by a real estate appraisal company, which is included in the list to provide valuation service by the Capital Markets Board of Turkey ("CMB"), the fair value of hotel is determined as TL 46,279 for shares of the land and building owned by the Group determined according to the discounted cash flow projections approach.

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

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

	1 January – 31 December 2018	1 January – 31 December 2017
Balance at 1 January	58,279	58,250
Additions	-	29
Change in fair value	(12,000)	-
<b>Total</b>	<b>46,279</b>	<b>58,279</b>

### 18. Other assets

	2018	2017
Collateral given for derivative and other transactions	5,472	48
Prepaid expenses	4,178	4,635
Assets held for resale	855	28,000
Prepaid taxes	144	220
Advances given	3	1
Others	2,163	2,202
<b>Total</b>	<b>12,815</b>	<b>35,106</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***19. Other money market deposits**

	2018		2017	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
<b>Obligations under repurchase agreements</b>	<b>590</b>	-	<b>30,177</b>	-
<i>Central Bank of Turkey</i>	-	-	-	-
<i>BIST</i>	-	-	16,639	-
<i>Other</i>	590	-	13,538	-
<b>Total</b>	<b>590</b>	-	<b>30,177</b>	-

As at 31 December 2018, other money market deposits of TL 590 (31 December 2017 – TL 30,177) have fixed interest rates.

**20. Funds borrowed**

	2018		2017	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
<b>Short-term<sup>(1)</sup></b>				
Fixed interest	1,197	62,175	259	109,886
Floating interest	-	264,920	-	14,228
<b>Long-term<sup>(1)</sup></b>				
Fixed interest	-	285,088	-	214,655
Floating interest	-	-	-	-
<b>Total</b>	<b>1,197</b>	<b>612,183</b>	<b>259</b>	<b>338,769</b>

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

Repayments of long term borrowing are as follows:

	2018		2017	
	Floating rate	Fixed rate	Floating rate	Fixed rate
2018	-	-	-	7,964
2019	-	5,404	-	26,254
2020	-	36,278	-	26,254
Thereafter	-	243,406	-	154,183
<b>Total</b>	-	<b>285,088</b>	-	<b>214,655</b>

Floating rate borrowings have interest rate repricing periods of 3 to 6 months.

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

As at 31 December 2018 and 31 December 2017, the Group has not had any defaults of principal, interest or redemption amounts.

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***20. Funds borrowed (continued)****Reconciliation of movement of funds borrowed to cash flows from financing activities**

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

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

**21. Debt securities issued**

	31 December 2018		31 December 2017	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Debt securities issued at amortised cost	-	-	104,284	533,459
<b>Total</b>	<b>-</b>	<b>-</b>	<b>104,284</b>	<b>533,459</b>

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

	31 December 2017	Cash items	Foreign currency conversion adjustments	Other non- cash items	31 December 2018
Debt securities issued	637,743	(627,124)	-	(10,619)	-
<b>Total</b>	<b>637,743</b>	<b>(627,124)</b>	<b>-</b>	<b>(10,619)</b>	<b>-</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***22. Other liabilities**

	<b>2018</b>	<b>2017</b>
Current accounts of loan customers	21,377	32,532
Collateral received for derivative transactions	4,140	2,075
Unearned commission income	1,768	2,861
Taxes and funds payables	381	1,644
Insurance payables	83	67
Others	855	8,852
<b>Total</b>	<b>28,604</b>	<b>48,031</b>

**23. Provisions**

	<b>2018</b>	<b>2017</b>
Bonus provision	2,468	3,232
Vacation pay liability	1,354	1,180
Employee termination benefits	3,392	1,206
Other <sup>(1)</sup>	4,426	1,429
	<b>11,640</b>	<b>7,047</b>

<sup>(1)</sup> The provision provided for legal cases amounting to TL 1,438 (31 December 2017: TL 1,404) is recognized in other provisions.

The movement in provision for employee termination benefits is as follows:

	<b>2018</b>	<b>2017</b>
At 1 January	1,206	1,063
Charge / (reversal) during the year	111	(26)
Actuarial gain <sup>(1)</sup>	2,075	169
<b>At 31 December</b>	<b>3,392</b>	<b>1,206</b>

<sup>(1)</sup> The actuarial gain amounting to TL 2,075 (31 December 2017: TL 169 gain) was recognized in retained earnings in 2018.

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 23. Provisions (continued)

#### Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2018 and 2017, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the reporting date.

The principal actuarial assumptions used at the reporting dates are as follows:

	2018	2017
Discount rate	4.07%	4.27%
Expected rates of salary/limit increases	10.50%	6.50%

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognised in retained earnings.

#### Other provisions

Other provision includes upper-management and employees bonus and retention agreement provision which was calculated on defined criteria and targets.

### 24. Capital and reserves

	2018	2017
<b>Number of common shares, TL 0.1 (in full TL), par value (Authorised and issued)</b>	3.372.923.500	3.372.923.500

#### Share capital and share premium

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

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Tarshish	235,515	69.83	235,515	69.83
C Faktoring A.Ş.	101,777	30.17	101,777	30.17
	<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.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **24. Capital and reserves (continued)**

#### **Legal reserves**

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

#### **Other reserves**

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

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

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

##### **Available-for-sale reserve**

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

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

#### **Dividends**

No dividend payments were made as at 31 December 2018 (31 December 2017: None). Since the General Assembly has not been made as of the announcement of the financial statement, the distribution of profit has not been decided yet.



# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 25. Related parties

The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (31 December 2017 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial information, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

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

	Shareholders		Directors and key management personnel		Others	
	2018	2017	2018	2017	2018	2017
	<b>Loans and finance lease receivables</b>					
At 1 January	-	-	9	27	-	-
At end of the period/year	-	-	-	9	-	-
Interest income <sup>(1)</sup>	-	-	-	3	-	-

<sup>(1)</sup> Interest income in the above tables for 2018 represents the balances as of 31 December 2018.

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

	Shareholders		Directors and key management personnel		Others	
	2018	2017	2018	2017	2018	2017
	<b>Funds borrowed</b>					
At 1 January	-	282,408	-	-	7,593	7,073
At end of the period/year	264,920	-	-	-	5,401	7,593
Interest expense <sup>(1)</sup>	(15,940)	(1,218)	-	-	(505)	(514)

<sup>(1)</sup> Interest expense in the above tables for 2018 represents the balances as of 31 December 2018.

Other balances with related parties:

Related party		Deposits	Other liabilities	Non-cash loans	Other interest expense
Shareholders	31 December 2018	-	3	3,284	-
	31 December 2017	-	-	-	-
Directors and key management personnel	31 December 2018	-	27	-	-
	31 December 2017	-	-	-	-
Others	31 December 2018	-	566	6	-
	31 December 2017	-	-	-	-

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 25. Related parties (continued)

Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expenses	Other operating income	Other operating expenses
Shareholders	2018	-	-	-	-	-
	2017	-	-	(1)	1	-
Directors and key management personnel	2018	-	-	-	-	-
	2017	-	-	-	-	-
Others	2018	-	-	-	1	-
	2017	-	-	(451)	4	-

### Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 7,771 (31 December 2017 – TL 6,730) comprising salaries and other benefits.

### 26. 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:

	2018	2017
Letters of guarantee	220,436	276,137
Commitments	3,042	624,436
Letters of credit	-	45,294
Other guarantees	17,877	15,623
<b>Total non-cash loans</b>	<b>241,355</b>	<b>961,490</b>

#### Explanation on Lawsuit

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

1. The Bank filed a complaint to the Enforcement Court against the proceeding filed against the Bank claiming that the underlying document for the proceeding was not appropriate for the said enforcement proceeding and the irregularities occurred during proceeding filing transactions. Upon the complaint, the premier judge hearing the case ruled for an interlocutory injunction and postponed the trial to 27 October 2016. However, the provisional judge who heard the file during the judiciary recess period revoked the interlocutory injunction without any justification and the proceeding restarted. Despite the objection submitted to the court in this regard, no decision was made to suspend the proceeding. During the first trial held on 27 October 2016, the court decided to cancel the Execution Proceeding. The opposing party appealed to the Divisional Court; however, the Divisional Court reviewed the matter and rejected the opposing party's request. Whereupon the opposing party further appealed the decision of the Divisional Court to the Supreme Court. The Civil Department No. 12 of the Supreme Court ratified the Divisional Court's decision on 13 November 2018. As a result, the execution proceeding with judgment initiated irregularly was definitively canceled.

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

### **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

(Currency - In thousands of Turkish Lira)

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

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

2. Upon the release of the injunction decision made by the Civil Court of Enforcement, as explained in the article above, a Negative Declaratory Action (a request to the court for a determination of not being a debtor) was further filed before the Gaziantep 1st Commercial Court of First Instance, another court, under the file number of 2016/964 in order to stop the ongoing proceeding. When the case was filed, a letter of guarantee in the amount of TL 60,241 was submitted, hence a cautionary judgment was established on the said execution proceeding. The parties submitted their declarations as well as their evidence to the Court. The court decided to postpone the hearing to 31 May 2017 to wait for the missing files and evaluate the evidence and declarations. In the meantime, as set forth in the article one above, since the proceeding was revoked and need for taking a cautionary judgment on execution proceeding disappeared automatically, TL 53,005 portion of the above-mentioned letter of guarantee amounting to TL 60,241 has been received back. The court decided during the hearing held on 31 May 2017 to return the guarantee letter amounting to TL 7,236 held by itself. At the hearing dated 31 May 2017, the court decided to dismiss the case without any further explanation. The reason for the judgment of such dismissal was not clearly stated in the court's justified decision either. It stated that the court had made its decision based on two previous Supreme Court decisions, which were indicated to be examples but irrelative with the Bank's current case. The Bank appealed to the Divisional Court (1st degree appellate) on 18 July 2017. The opposing party submitted its reply petitions for the Bank's appeal and right after, the Bank sent its respond declarations that were included in the case file. The Divisional Court decided to return the case file to the local court in order for it to be returned to itself upon the completion of the incomplete items declared by the Bank. Incomplete items were completed and the case file was sent by the Local Court to the Divisional Court. On 24 May 2018, the Divisional Court decided to accept the Bank's appeal request without reviewing the merits of the case on the grounds that none of the evidence indicated in the case file had been gathered and ruled to revoke the Local Court's decision and sent the case file back to the Local Court for further review. We appealed the Divisional Court's ruling which was rejected by the Divisional Court. This time, the Bank appealed such rejection decision before the Supreme Court on 06 July 2018. The Supreme Court's decision is expected.

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 26. Commitments and contingencies (continued)

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

Upon an investigation it conducted, the Gaziantep Chief Public Prosecutor's Office prepared a bill of indictment against the accuseds on the grounds of an attempt to aggravated fraud and forgery on an official document, and a public prosecution against the accuseds was filed before the Gaziantep 5th Aggravated Felony Court under the case file number of 2018/172. The case files filed against the land registry, court and execution office officials were combined with the case file numbered 2018/172 pending before the Gaziantep 5th Aggravated Felony Court. In the hearing held on 06.07.2018, testimonies of some of the witnesses were taken; however, the hearing was re-held on 13.07.2018 due to the fact that the hearing footage had been erased from the NJIS (National Judiciary Informatics System) and the same testimonies were retaken. At the hearing held on 30.10.2018, the court took the testimonies of some of the accuseds and decided to take the testimonies of the remaining accuseds during the next hearing and wait for the replies to various warrants previously sent to various institutions to be received. During the hearing held on 07.02.2019, the testimonies of the remaining accuseds included in the combined case file were taken and the court decided to postpone the hearing to be held on 27.02.2019 to take the testimonies of the still remaining accuseds and receive the replies to the warrants that have not yet been replied to.

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

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

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

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

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

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

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

### **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

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

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

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

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

Based on the report prepared by the Inspection Board of the Ministry of Justice, the Gaziantep Chief Public Prosecutor's Office prepared a bill of indictment with a document number of 2017/32294 and requested that the suspects be sentenced on the grounds of Professional Misconduct. The case file is still pending before the Gaziantep 12th Criminal Court of First Instance with a case file number of 2017/640. The court reached a conclusion that the official receiver, about whom the investigation in the investigation file numbered 2017/74224 being conducted by the Gaziantep Chief Public Prosecutors' Office is still on-going, might have had committed the crime of professional misconduct, and decided to prosecute the suspect within the scope of this case file as well due to his connection with the transactions included in this case file. Testimony of accused the assistant manager to the bailiff was taken by the court. The case files numbered 2018/83 E., 2017/640 E. and 2017/121 E. filed against the land registry, court and execution office officials and pending before the Gaziantep 6th Criminal Court of First Instance, the Gaziantep 12th Criminal Court of First Instance and the Gaziantep 15th Criminal Court of First Instance respectively were combined with the 2018/172 E. filed against the related persons who had attempted the fraud in question and pending before the Gaziantep 5th Aggravated Felony Court.

Although the approval required for the investigation of the land registry personnel in the public prosecutors' office's investigation conducted due to the irregularities occurred during the stages of the Land Registry Directorate's sending the documents that had not been requested by the execution office and the sending and receiving of such documents was requested from the Governorship of Gaziantep, the Governorship decided not to grant such an investigation approval. Upon such decision, the Bank applied to the 1st Administrative Court of the Gaziantep Regional Administrative Court. The related court determined the Bank's rejections as just and decided to initiate an investigation about the land registry personnel. Upon such decision, the Public Prosecutors' Office conducted the necessary investigations and prepared a bill of indictment in order for a prosecution case to be filed against the assistant manager to the bailiff, the person who had helped with the said transactions, the official receiver, the land registry personnel on the grounds of Professional Misconduct and Joint Professional Misconduct. Such bill of indictment was accepted by the Gaziantep 6th Criminal Court of First Instance in its case file numbered 2018/83. Testimonies of accuseds were taken in the hearing of the Gaziantep 6th Criminal Court of First Instance's case file numbered 2018/83. The Court decided to consolidate the case file with the Gaziantep 5th Aggravated Felony Court's case file. The case file numbered 2018/83 filed against the related persons who had attempted the fraud in question and pending before the Gaziantep 6th Criminal Court of First Instance was combined with the case file numbered 201/172 E. pending before the Gaziantep 5th Aggravated Felony Court.

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

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

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

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

The investigation about the 4 land registry officials about whom the Bank had filed a complaint with the Gaziantep Chief Public Prosecutors' Office's investigation file numbered 2016/49291, but no actions have yet to be taken was also included within the scope of this investigation file and it is being investigated under the Gaziantep Chief Public Prosecutors' Office's investigation file numbered 2016/70494. The investigation approval about these persons was requested from the Gaziantep Governorship and the Gaziantep Governorship added 3 more officials to these 4 land registry officials and approved a total of 7 officials to be investigated. Such complaint made against these 7 officials is still being investigated under the Gaziantep Chief Public Prosecutors' Office's investigation file numbered 2017/93117.

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

The on-going litigations filed against the Bank have a total value of TL 1,845 as of 31 December 2018 and the Bank provided TL 1,438 provision for such litigations (such amounts as of 31 December 2017 were TL 1,793 and TL 1,444, respectively).

### **27. Financial risk management**

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

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

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

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

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

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

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 27. Financial risk management (continued)

#### Strategy in using financial instruments (continued)

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.

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

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

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

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

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

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

#### Credit risk

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

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

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)**

<b>31 December 2018</b>	<b>Loans and finance lease receivables</b>	<b>Due from banks and financial institutions</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
<i>Carrying amount</i>				
12 month ECL (stage 1)	491,789	2,190	88,183	241,355
Lifetime ECL significant increase in credit risk (stage 2)	179,427	-	-	-
Lifetime ECL impaired credits (stage 3)	126,563	-	-	-
<i>Allowance for impairment</i>				
- 12 month ECL (stage 1)	(3,151)	(9)	(73)	(2,958)
- Lifetime ECL significant increase in credit risk (stage 2)	(9,492)	-	-	-
- Lifetime ECL impaired credits (stage 3)	(62,160)	-	-	-
	<b>722,976</b>	<b>2,181</b>	<b>88,110</b>	<b>238,397</b>
<b>31 December 2017</b>	<b>Loans and finance lease receivables</b>	<b>Due from banks and financial institutions</b>	<b>Investment securities and loaned securities</b>	<b>Non cash loans</b>
Neither past due nor impaired	868,224	9,643	74,664	961,490
Past due but not impaired	19,541	-	-	-
Individually impaired	58,217	-	-	-
Allowance for impairment				
- Individual impairment	(14,450)	-	-	-
- Collective impairment	(2,825)	-	-	-
	<b>928,707</b>	<b>9,643</b>	<b>74,664</b>	<b>961,490</b>

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

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

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

Bankpozitif manages its credit portfolio as per following main principles;

*Creating credit risk awareness throughout the Group*

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

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



# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

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

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **27. Financial risk management (continued)**

#### **Credit risk (continued)**

##### *Measuring risk*

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

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

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

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

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***27. 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 December 2018</b>	<b>Cash loans</b>	<b>Non-cash loans</b>	<b>Total</b>
Electric production and supply	238,455	15,338	253,793
Building contractor (general and special trade)	39,678	91,187	130,865
Other commercial services	126,188	-	126,188
Food, beverage and tobacco industries	79,458	4	79,462
Holding companies	77,948	6	77,954
Other financial institutions	-	58,354	58,354
Public works and civil engineering	46,685	2,100	48,785
Transportation	40,430	-	40,430
Personal other services	2,575	23,554	26,129
Machinery and equipment	-	23,497	23,497
Trade	-	13,675	13,675
Electrical and electronic equipment	-	10,220	10,220
Consumer loans	1,133	-	1,133
Textile and clothing	796	30	826
Metal and by-products	-	53	53
Others	6,870	3,337	10,207
<b>Total performing loans</b>	<b>660,216</b>	<b>241,355</b>	<b>901,571</b>
Loans in arrears	126,563	-	126,563
Interest accruals	11,000	-	11,000
Loss allowances (amounts arising from ECL)	(74,803)	-	(74,803)
<b>Total loans</b>	<b>722,976</b>	<b>241,355</b>	<b>964,331</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Credit risk (continued)***Monitoring the risk (continued)*

<b>31 December 2017</b>	<b>Cash loans</b>	<b>Non-cash loans</b>	<b>Total</b>
Financial institutions	33,150	669,015	702,165
Electric production and supply	264,257	55,005	319,262
Holding companies	136,777	3,180	139,957
Other commercial services	103,871	14,466	118,337
Public works and civil engineering	70,632	36,291	106,923
Building contractor (general and special trade)	59,562	18,419	77,981
Food, beverage and tobacco industries	71,853	989	72,842
Transportation	70,251	113	70,364
Personal other services	4,025	39,180	43,205
Metal and by-products	4,327	34,236	38,563
Trade	-	36,823	36,823
Electrical and electronic equipment	-	13,034	13,034
Textile and clothing	11,224	30	11,254
Consumer loans	2,908	-	2,908
Machinery and equipment	564	7,012	7,576
Tourism and entertainment	-	5,480	5,480
Agriculture and forestry	1,500	-	1,500
Others	8,068	28,217	36,285
<b>Total performing loans</b>	<b>842,969</b>	<b>961,490</b>	<b>1,804,459</b>
Loans in arrears	58,217	-	58,217
Interest accruals	44,796	-	44,796
Provision for possible loan losses	(17,275)	-	(17,275)
<b>Total loans</b>	<b>928,707</b>	<b>961,490</b>	<b>1,890,197</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018**

(Currency - In thousands of Turkish Lira)

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

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

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Cash loans (including financial lease receivables) under loan in arrears</b>		
Secured by mortgages	116,055	46,777
Unsecured	10,508	11,440
<b>Total</b>	<b>126,563</b>	<b>58,217</b>
<b>Cash loans (including financial lease receivables) except loan in arrears</b>		
Secured by mortgages	271,364	317,437
Secured by assignment and cheques	266,595	347,731
Secured by pledge	109,316	89,230
Secured by guarantee	15,297	112,277
Secured by cash	7,267	8,166
Unsecured	1,377	12,924
<b>Total</b>	<b>671,216</b>	<b>887,765</b>
<b>Non-cash loans</b>		
Secured by guarantee	151,076	296,421
Unsecured	53,000	637,439
Secured by assignment and cheques	32,877	13,659
Secured by pledge	4,220	469
Secured by cash	182	11,845
Secured by mortgages	-	1,657
<b>Total</b>	<b>241,355</b>	<b>961,490</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

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(Currency - In thousands of Turkish Lira)

### 27. 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 December 2018</b>	<b>Carrying amount</b>	<b>Gross outflow</b>	<b>On demand</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>
Interbank and other money market deposits	590	590	-	590	-	-	-	-
Funds borrowed	613,380	651,280	-	322,340	15,307	41,165	165,151	107,317
Debt securities issued	-	-	-	-	-	-	-	-
Current account of loan customers <sup>(1)</sup>	21,376	21,376	-	19,919	-	-	1,458	-
	<b>635,347</b>	<b>673,244</b>	<b>-</b>	<b>342,847</b>	<b>15,307</b>	<b>41,165</b>	<b>166,609</b>	<b>107,317</b>

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

<b>31 December 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	30,177	30,177	-	30,177	-	-	-	-
Funds borrowed	339,028	387,007	-	21,948	19,926	107,939	127,119	110,075
Debt securities issued	637,743	685,989	-	50,027	635,962	-	-	-
Current account of loan customers <sup>(1)</sup>	32,532	32,532	-	25,747	5,505	-	1,280	-
	<b>1,039,480</b>	<b>1,135,705</b>	<b>-</b>	<b>127,899</b>	<b>661,393</b>	<b>107,939</b>	<b>128,399</b>	<b>110,075</b>

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

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### 27. Financial risk management (continued)

#### Liquidity risk (continued)

The table below analyses contractual maturities of derivative transactions:

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

  

31 December 2017	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Forward purchase contracts	1,756	193	1	-	-	-	1,950
Forward sale contracts	1,764	194	1	-	-	-	1,959
Currency swap purchases	195,636	83,309	1,356	361	-	-	280,662
Currency swap sales	68,624	82,492	1,363	305	-	-	152,784
Interest rate swaps	-	-	-	5,239	-	109,490	114,729
	<b>267,780</b>	<b>166,188</b>	<b>2,721</b>	<b>5,905</b>	<b>-</b>	<b>109,490</b>	<b>552,084</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 December 2018, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 184 (31 December 2017 – TL 345) for one day.

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

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

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

#### Currency risk

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

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***27. Financial risk management (continued)****Currency risk (continued)**

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

<b>31 December 2018</b>	<b>USD</b>	<b>EUR</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>				
Due from banks and financial institutions	1,298	452	119	1,869
Fair value through comprehensive income	5,859	-	-	5,859
Reserve deposits at Central Banks	71,728	-	-	71,728
Loans and finance lease receivables	462,547	170,940	434	633,921
Other assets	5,078	-	-	5,078
<b>Total assets</b>	<b>546,510</b>	<b>171,392</b>	<b>553</b>	<b>718,455</b>
<b>Liabilities</b>				
Trading liabilities	2,734	-	-	2,734
Funds borrowed	327,095	285,088	-	612,183
Other liabilities	8,071	10,092	-	18,163
<b>Total liabilities</b>	<b>337,900</b>	<b>295,180</b>	<b>-</b>	<b>633,080</b>
<b>Gross exposure</b>	<b>208,610</b>	<b>(123,788)</b>	<b>553</b>	<b>85,375</b>
<b>Off-balance sheet position</b>				
Net notional amount of derivatives	(206,435)	124,266	(427)	(82,596)
<b>Net exposure</b>	<b>2,175</b>	<b>478</b>	<b>126</b>	<b>2,779</b>
<b>31 December 2017</b>				
<b>Assets</b>				
Due from banks and financial institutions	3,203	542	397	4,142
Reserve deposits at central Banks	68,944	-	-	68,944
Loans and finance lease receivables	477,750	248,328	697	726,775
Other assets	3,554	4	4,604	8,162
<b>Total assets</b>	<b>553,451</b>	<b>248,874</b>	<b>5,698</b>	<b>808,023</b>
<b>Liabilities</b>				
Funds borrowed	35,484	303,285	-	338,769
Debt securities issued	533,459	-	-	533,459
Other liabilities	17,415	9,950	1	27,366
<b>Total liabilities</b>	<b>586,358</b>	<b>313,235</b>	<b>1</b>	<b>899,594</b>
<b>Gross exposure</b>	<b>(32,907)</b>	<b>(64,361)</b>	<b>5,697</b>	<b>(91,571)</b>
<b>Off-balance sheet position</b>				
Net notional amount of derivatives	164,913	64,310	(980)	228,243
<b>Net exposure</b>	<b>132,006</b>	<b>(51)</b>	<b>4,717</b>	<b>136,672</b>



# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

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(Currency - In thousands of Turkish Lira)

### 27. Financial risk management (continued)

#### Currency risk (continued)

##### Sensitivity analysis

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

	31 December 2018		31 December 2017	
	Equity	Profit or loss	Equity	Profit or loss
USD	218	218	13,201	13,201
EUR	48	48	(5)	(5)
Other currencies	13	13	472	472
<b>Total</b>	<b>279</b>	<b>279</b>	<b>13,668</b>	<b>13,668</b>

#### 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 Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 27. Financial risk management (continued)

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

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

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

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement

As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 27. Financial risk management (continued)

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

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

31 December 2018 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	13.00	2.00	-	-	-	-
Interbank and other money market placements	25.21	-	-	-	-	-
Fair value through other comprehensive income	7.52	-	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	31.64	7.66	4.85	-	-	-
- Retail loans	18.57	-	-	7.20	-	-
Other money market deposits	-	-	-	-	-	-
Funds borrowed and debt securities issued	17.92	7.62	2.94	3.76	-	-
Current account of loan customers <sup>(1)</sup>	18.86	2.00	-	-	-	-
31 December 2017 (%)	TL	USD	EUR	CHF	JPY	GBP
Due from banks and financial institutions	11.02	0.51	-	-	-	-
Interbank and other money market placements	14.99	-	-	-	-	-
Marketable securities (Investment and trading)	13.95	5.00	-	-	-	-
Loans and finance lease receivables						
- Corporate loans	17.95	9.18	5.61	-	-	-
- Retail loans	21.68	10.09	9.76	7.79	6.29	11.53
Other money market deposits	8.97	-	-	-	-	-
Funds borrowed and debt securities issued	14.36	3.71	3.45	-	-	-
Current account of loan customers <sup>(1)</sup>	8.89	30.65	0.97	-	-	-

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

The Bank's value at market risks as of 31 December 2018 and as of 31 December 2017 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	2018			2017		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	26,715	40,938	14,600	8,228	27,000	3,525
Counter party risk	-	-	-	-	-	-
Currency risk	5,406	11,238	2,050	2,785	12,000	638
<b>Total value-at-risk</b>	<b>32,121</b>	<b>52,176</b>	<b>16,650</b>	<b>11,013</b>	<b>39,000</b>	<b>4,163</b>

### Capital Management

#### Internal capital adequacy assessment process

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***27. 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>31 December 2018</b>	<b>31 December 2017</b>
<b>Change at portfolio value/Total equity (%)</b>		
<b>Local TL interest rate</b>		
+500 bps	(0.66)	(1.01)
-400 bps	1.06	1.65
<b>Foreign currency interest rate</b>		
+200 bps EUR	3.60	2.73
-200 bps EUR	(0.34)	(0.53)
+200 bps USD	(6.16)	(5.20)
-200 bps USD	6.90	5.93

**Capital adequacy**

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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Amount subject to credit risk (I)	859,433	1,185,381
Amount subject to market risk (II)	18,813	487,500
Amount subject to operational risk (III)	71,057	101,181
<b>Total risk-weighted assets, value at market risk and operational risk (IV) = (I+II+III)</b>	<b>949,303</b>	<b>1,774,062</b>
Capital for the purpose of calculating the capital adequacy ratio	304,641	342,116
<b>Capital adequacy ratio</b>	<b>32.69%</b>	<b>25.81%</b>

# BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

## Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018

(Currency - In thousands of Turkish Lira)

### 28. Classification of financial assets and financial liabilities

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2018	Note	Trading	Loans and receivables	FVOCI	Other amortised cost	Total carrying amount
Cash and balances with central banks	10	-	2,602	-	-	2,602
Due from banks and financial institutions	10	-	2,181	-	-	2,181
Reserve deposits at central banks	11	-	72,466	-	-	72,466
Trading assets	12	13,092	-	-	-	13,092
Investment securities	13	-	-	87,517	-	87,517
Loaned securities	13	-	-	593	-	593
Loans and finance lease receivables	14	-	722,976	-	-	722,976
<b>Total</b>		<b>13,092</b>	<b>800,225</b>	<b>88,110</b>	<b>-</b>	<b>901,427</b>
Other money market deposits	19	-	-	-	590	590
Trading liabilities	12	6,775	-	-	-	6,775
Funds borrowed	20	-	-	-	613,380	613,380
Current accounts of loan customers <sup>(1)</sup>	22	-	-	-	21,377	21,377
<b>Total</b>		<b>6,775</b>	<b>-</b>	<b>-</b>	<b>635,347</b>	<b>642,122</b>

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

31 December 2017	Note	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount
Cash and balances with central banks	10	-	6	-	-	6
Due from banks and financial institutions	10	-	9,643	-	-	9,643
Interbank and other money market placements	10	-	235,745	-	-	235,745
Reserve deposits at central banks	11	-	69,512	-	-	69,512
Trading assets	12	7,486	-	-	-	7,486
Investment securities	13	-	-	60,486	-	60,486
Loaned securities	13	-	-	14,178	-	14,178
Loans and finance lease receivables	14	-	928,707	-	-	928,707
<b>Total</b>		<b>7,486</b>	<b>1,243,613</b>	<b>74,664</b>	<b>-</b>	<b>1,325,763</b>
Other money market deposits	19	-	-	-	30,177	30,177
Trading liabilities	12	4,426	-	-	-	4,426
Funds borrowed	20	-	-	-	339,028	339,028
Debt securities issued	21	-	-	-	637,743	637,743
Current accounts of loan customers <sup>(1)</sup>	22	-	-	-	32,532	32,532
<b>Total</b>		<b>4,426</b>	<b>-</b>	<b>-</b>	<b>1,039,480</b>	<b>1,043,906</b>

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

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***29. Fair value of financial and non-financial instruments****Valuation of assets measured at fair value**

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

<b>31 December 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	46,279	46,279
<i>Financial instruments</i>				
Trading assets	7,197	5,895	-	13,092
Investment and loaned securities	88,110	-	-	88,110
	<b>95,307</b>	<b>5,895</b>	<b>46,279</b>	<b>147,481</b>
<i>Financial instruments</i>				
Trading liabilities	-	6,775	-	6,775
	-	<b>6,775</b>	-	<b>6,775</b>
<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<i>Non-financial instruments</i>				
Investment property	-	-	58,279	58,279
<i>Financial instruments</i>				
Trading assets	2,298	5,188	-	7,486
Investment and loaned securities	74,664	-	-	74,664
	<b>76,962</b>	<b>5,188</b>	<b>58,279</b>	<b>140,429</b>
<i>Financial instruments</i>				
Trading liabilities	-	4,426	-	4,426
	-	<b>4,426</b>	-	<b>4,426</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***29. Fair value of financial and non-financial instruments (continued)****Valuation of assets measured at fair value (continued)**

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>Investment property</b>	<b>2018</b>	<b>2017</b>
Balance at 1 January	58,279	58,250
Total gains (losses)	(12,000)	-
<i>in profit or loss</i>	(12,000)	-
<i>in other comprehensive income</i>	-	-
Purchases	-	29
	<b>46,279</b>	<b>58,279</b>

**Financial instruments not measured at fair value – fair value hierarchy**

	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Financial assets:				
<b>Loans and finance lease receivables</b>	<b>722,977</b>	<b>792,699</b>	<b>928,707</b>	<b>986,100</b>
Financial liabilities:				
Funds borrowed	613,970	643,553	339,028	386,384
Debt securities issued	-	-	637,743	660,017
<b>Debt securities issued</b>	<b>613,970</b>	<b>643,553</b>	<b>976,771</b>	<b>1,046,401</b>

**Loans and finance lease receivables**

Loans and finance lease receivables are net of provisions for impairment. The estimated fair value of loans and finance lease receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Estimated fair value of lease contracts receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

**Other money market deposits, debt securities issued, funds borrowed and current accounts of loan customers**

The estimated fair value of other money market deposits, debt securities issued and current accounts of loan customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The estimated fair value of fixed interest bearing funds borrowed is based on discounted cash flows using interest rates for new debts with similar remaining maturity and the estimated fair value of floating interest bearing funds borrowed are equal to their carrying value.

Fair values of remaining financial assets and liabilities carried at amortised cost, including cash and balances with central banks, due from banks and financial institutions, interbank and other money market placements, reserve deposits at central banks, deposits from other banks are considered to approximate their respective carrying values due to their short-term nature.



**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement****As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***30. 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 December 2018</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	47,638	67,152	420	960	116,170
Interest expense	(62,845)	(1,360)	-	-	(64,205)
Internal transfer rate income/(expense)	53,158	(52,846)	(312)	-	-
<b>Net interest income</b>	<b>37,951</b>	<b>12,946</b>	<b>108</b>	<b>960</b>	<b>51,965</b>
Net fee and commission income / (expense)	(212)	7,655	(5)	-	7,438
Net trading income and foreign exchange gain, net	3,486	1,686	69	13	5,254
Other operating income	319	1,376	-	339	2,034
<b>Total operating income</b>	<b>41,544</b>	<b>23,663</b>	<b>172</b>	<b>1,312</b>	<b>66,691</b>
Net impairment loss on financial and non-financial assets	101	(39,031)	133	-	(38,767)
Total operating expenses	(25,188)	(38,772)	(753)	(790)	(65,503)
<b>Profit / (loss) before income tax</b>	<b>16,457</b>	<b>(54,140)</b>	<b>(448)</b>	<b>522</b>	<b>(37,609)</b>
Income tax	(490)	(564)	(5)	667	(392)
<b>Net profit/(loss) for the year</b>	<b>15,967</b>	<b>(54,704)</b>	<b>(453)</b>	<b>1,189</b>	<b>(38,001)</b>
<b>Total assets</b>	<b>189,965</b>	<b>771,943</b>	<b>2,060</b>	<b>7,373</b>	<b>971,341</b>
<b>Total liabilities</b>	<b>636,881</b>	<b>23,344</b>	<b>106</b>	<b>658</b>	<b>660,989</b>

**BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ****Notes to the Consolidated Financial Statement  
As at and for the year ended 31 December 2018***(Currency - In thousands of Turkish Lira)***30. Operating segments (continued)**

<b>31 December 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	22,095	86,151	1,609	658	<b>110,513</b>
Interest expense	(68,955)	(1,314)	-	-	<b>(70,269)</b>
Intersegment revenue	65,403	(68,600)	3,197	-	-
<b>Net interest income</b>	<b>18,543</b>	<b>16,237</b>	<b>4,806</b>	<b>658</b>	<b>40,244</b>
Net fee and commission income	(914)	5,276	(98)	-	<b>4,264</b>
Net trading income and foreign exchange gain, net	1,634	(25)	55	28	<b>1,692</b>
Other operating income	170	(2,830)	3,770	627	<b>1,737</b>
<b>Total operating income</b>	<b>19,433</b>	<b>18,658</b>	<b>8,533</b>	<b>1,313</b>	<b>47,937</b>
Net impairment loss on financial and non-financial assets	(94)	5,093	782	-	<b>5,781</b>
Total operating expenses	(21,547)	(20,638)	(4,794)	(1,013)	<b>(47,992)</b>
<b>Profit/(Loss) before income tax</b>	<b>(2,208)</b>	<b>3,113</b>	<b>4,521</b>	<b>300</b>	<b>5,726</b>
Income tax	(1,220)	-	-	146	<b>(1,074)</b>
<b>Net profit / (loss) for the year</b>	<b>(3,428)</b>	<b>3,113</b>	<b>4,521</b>	<b>446</b>	<b>4,652</b>
<b>Total assets</b>	<b>295,611</b>	<b>1,114,254</b>	<b>16,726</b>	<b>6,445</b>	<b>1,433,036</b>
<b>Total liabilities</b>	<b>997,727</b>	<b>67,433</b>	<b>1,099</b>	<b>193</b>	<b>1,066,452</b>

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

## **Notes to the Consolidated Financial Statement As at and for the year ended 31 December 2018**

*(Currency - In thousands of Turkish Lira)*

### **31. Rating**

As at 31 December 2018, the Bank's ratings assigned by international rating agency, Fitch Ratings is as follows:

#### **Fitch Ratings, December 2018**

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

### **32. Subsequent and other events**

None.