

**Alternatifbank Anonim Şirketi
And Its Subsidiaries**

Condensed Consolidated Interim Financial Statements
For the six-month period ended 30 June 2016
With Independent Auditors' Report on Review of
Condensed Consolidated
Interim Financial Information Thereon

19 August 2016

This report contains the "Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information" comprising 2 page and; the "Condensed consolidated interim financial statements and their explanatory notes" comprising 22 pages

Alternatifbank Anonim Şirketi and Its Subsidiaries

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Independent auditors' report on review of interim financial information

To the Board of Directors of

Alternatifbank Anonim Şirketi:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Alternatifbank Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2016, the condensed consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

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

Murat Alsan
Partner

19 August 2016
İstanbul, Turkey

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

	Note	30 June 2016	31 December 2015
ASSETS			
Cash and balances with the Central Bank of Turkey		1,455,138	1,545,498
Loans and advances to banks		754,611	962,101
Financial assets held for trading		42,822	27,662
- Trading securities		458	422
- Derivative financial instruments	8	42,364	27,240
Loans and advances to customers	9	9,193,637	9,222,679
Investment securities		1,918,565	816,103
- Available-for-sale	10	1,918,565	816,103
Leasing receivables		1,046,338	1,029,148
Other intangible assets		85,148	82,178
Property and equipment		29,785	29,493
Deferred income tax assets		53,078	44,946
Other assets		235,906	182,232
Total assets		14,815,028	13,942,040
LIABILITIES			
Deposits from banks		409,186	709,168
Due to customers		7,223,986	5,887,835
Other borrowed funds	11	3,505,550	4,262,137
Debt securities issued		870,682	877,824
Derivative financial instruments	8	26,114	14,859
Derivatives held for risk management	8	4,237	113
Other provisions		40,105	41,899
Retirement benefit obligations		6,854	6,364
Other liabilities		333,961	339,579
Subordinated liabilities	11	1,233,160	767,558
Total liabilities		13,653,835	12,907,336
EQUITY			
Share capital	12	770,000	620,000
Share premium	12	54	54
Fair value reserves		6,951	(27,437)
Legal reserves		28,975	24,972
Retained earnings		355,200	417,103
Equity attributable to owners of the Bank		1,161,180	1,034,692
Non-controlling interests		13	12
Total equity		1,161,193	1,034,704
Total liabilities and equity		14,815,028	13,942,040

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

	Note	30 June 2016	30 June 2015
Interest income		562,808	566,535
Interest expense		(361,685)	(293,165)
Net interest income		201,123	273,370
Fee and commission income		29,499	26,622
Fee and commission expense		(16,640)	(6,466)
Net fee and commission income		12,859	20,156
Foreign exchange gains and losses, net		4,385	24,760
Trading gains and losses, net		(30,814)	(24,672)
Gains / losses from investment securities, net		6,464	2,038
Operating income		194,017	295,652
Impairment losses on loans and credit related commitments, net		(118,045)	(63,957)
Other operating expenses		(150,384)	(137,220)
Operating expense		(268,429)	(201,177)
Profit/(Loss) before income tax		(74,412)	94,475
Income tax income/(expense)		16,562	(19,618)
Profit/(Loss) for the period		(57,850)	74,857
Attributable to:			
Equity holders of the Bank		(57,849)	74,673
Non-controlling interest		(1)	184
		(57,850)	74,857
Basic earnings per share attributable to the equity holders of the Bank (expressed in Full TL)	17	(0.0847)	0.1204

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

	1 January 2016 - 30 June 2016	1 January 2015 - 30 June 2015
Profit for the period	(57,850)	74,857
Items that will not be reclassified to profit or loss		
Re-measurements of defined benefit liability	(91)	-
Related tax	18	-
	(73)	-
Items that are or may be reclassified subsequently to profit or loss		
Net change in fair value of available for sale financial assets	37,768	(18,270)
Net change in available for sale financial assets transferred to profit or loss	5,217	3,830
Related tax	(8,597)	2,888
Other comprehensive income for the year, net of income tax	34,315	(11,552)
Total comprehensive income for the period	(23,535)	63,305
Total comprehensive income attributable to		
Equity holders of the Bank	(23,534)	63,121
Non-controlling interests	(1)	184
Total comprehensive income for the period	(23,535)	63,305

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

	Attributable to equity holders of the Bank							Non-controlling interest	Total equity	
	Note	Share capital	Share premium	Own Shares Acquired	Legal Reserves	Fair Value Reserves	Retained Earnings			Total
Balance at 1 January 2015		620,000	119	(3,296)	20,052	(6,154)	327,292	958,013	9,215	967,228
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	74,673	74,673	184	74,857
Other comprehensive income										
Net change in available for sale investments, net of tax		-	-	-	-	(11,552)	-	(11,552)	-	(11,552)
Total other comprehensive income		-	-	-	-	(11,552)	-	(11,552)	-	(11,552)
Total comprehensive income for the period		-	-	-	-	(11,552)	74,673	63,121	184	63,305
Contributions by and distributions to owners										
Transfer to legal reserves		-	-	-	7,019	-	(7,019)	-	-	-
Capital Increase		-	-	-	-	-	-	-	-	-
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	-
Other		-	14	3,028	-	-	528	3,570	(3,789)	(219)
Balance at 30 June 2015		620,000	133	(268)	27,071	(17,706)	395,474	1,024,704	5,610	1,030,314
Balance at 1 January 2016		620,000	54	-	24,972	(27,437)	417,103	1,034,692	12	1,034,704
Total comprehensive income for the period										
Profit for the period		-	-	-	-	-	(57,849)	(57,849)	(1)	(57,850)
Other comprehensive income										
Net change in available for sale investments, net of tax		-	-	-	-	34,388	-	34,388	-	34,388
Remeasurements of defined benefit liability		-	-	-	-	-	(73)	(73)	-	(73)
Total other comprehensive income		-	-	-	-	34,388	(73)	34,315	-	34,315
Total comprehensive income for the period		-	-	-	-	34,388	(57,922)	(23,534)	(1)	(23,535)
Contributions by and distributions to owners										
Transfer to legal reserves		-	-	-	4,003	-	(4,003)	-	-	-
Purchase from non-controlling interests		-	-	-	-	-	-	-	-	-
Capital Increase		150,000	-	-	-	-	-	150,000	-	150,000
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	22	22	2	24
Balance at 30 June 2016		770,000	54	-	28,975	6,951	355,200	1,161,180	13	1,161,193

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

	1 January 2016 - 30 June 2016	1 January 2015 - 30 June 2015
Cash flows from operating activities		
Interest received	552,224	560,299
Interest paid	(331,388)	(290,938)
Fees and commissions received	29,499	27,580
Trading income/expense	(75,511)	39,736
Recoveries of loans previously written off	99,523	46,048
Fees and commissions paid	(16,640)	(6,466)
Cash payments to employees and other parties	(80,671)	(79,296)
Cash received from other operating activities	(177,005)	(219,386)
Cash paid for other operating activities	21,018	13,321
Taxes paid	(5,626)	(11,292)
Cash flows from operating profits before changes in operating assets and liabilities	15,423	79,606
Changes in operating assets and liabilities:		
Trading securities	(14,390)	30,761
Loans and advances	(185,452)	(1,108,146)
Other assets	81,816	68,369
Deposits from other banks	(171,219)	182,679
Deposits	1,328,013	636,916
Other money market deposits	(128,338)	9,620
Other liabilities	16,502	337,285
Net cash from operating activities	942,355	237,090
Cash flows from investing activities		
Purchases of available for sale securities	(2,553,764)	(286,289)
Proceeds from sale and redemption of available-for-sale securities	1,452,302	333,950
Purchases of premises and equipment	(13,366)	(1,853)
Proceeds from sale property and equipment	4,162	8,588
Purchase of intangible assets, net	(2,970)	(4,421)
Net cash from investing activities	(1,113,636)	49,975
Cash flows from financing activities		
Proceeds from funds borrowed	814,516	2,253,013
Payments for funds borrowed	(993,671)	(1,352,830)
Proceeds from bond issue	(7,142)	102,088
Payments for bonds issued	-	(197,100)
Share capital increase	150,000	-
Net cash from financing activities	(36,297)	805,171
Net increase in cash and cash equivalents	(207,578)	1,092,236
Effects of foreign exchange-rate changes on cash and cash equivalents	14,692	(132,240)
Cash and cash equivalents at beginning of the period	1,286,866	459,281
Cash and cash equivalents at end of the period	1,093,980	1,419,277

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 1 - GENERAL INFORMATION

Alternatifbank A.Ş. (a Turkish joint stock company - “the Bank”) was incorporated in Istanbul on 6 November 1991 and started operations in February 1992. Bank's shares are traded on the Istanbul Stock Exchange since 3 July 1995.

The sale of the shares of the Bank belonging to Anadolu Group companies to The Commercial Bank has been finalised on 18 July 2013 and the share transfer has been registered in accordance with the Board of Directors meeting at the same date.

The Bank made an application to Capital Market Board and Borsa İstanbul A.Ş. about to delisting from the stock-exchange quotation in accordance with clauses of Capital Market Board “Squeeze-out and Sell-out Rights Communiqué” on 11 July 2014. “Capital Issue Document” prepared for the capital increase allocated to controlling shareholder Commercial Bank of Qatar in the context of the process of squeeze-out and sell-out rights from the minority in accordance with “Squeeze-out and Sell-out Rights Communiqué” has been approved by Capital Market Board on 23 July 2015. As of that date, Alternatifbank A.Ş. delisted from the stock-exchange.

As of 30 June 2016, Commercial Bank of Qatar owns 75.00% of the Bank’s shares. Current shareholder structure of the Bank is as follows:

Name of Shareholders	30 June 2016		31 December 2015	
	Paid in capital	%	Paid in capital	%
Commercial Bank of Qatar	577,500	%75.00	465,000	75.00%
Anadolu Endüstri Holding A.Ş. (**)	192,500	%25.00	106,683	17.21%
Anadolu Aktif Teşebbüs ve Makine Ticaret A.Ş. (**)	-	-	48,317	7.79%
Total (*)	770,000	%100	620,000	100%

(*) Paid in capital of the Bank has increased to TL 770,000 by TL 150,000 in cash on 14 April 2016.

(**) The 7.79 % share of the Bank’s, owned by the Anadolu Aktif Teşebbüs ve Makine Ticaret A.Ş., and is acquired by Anadolu Endüstri Holding A.Ş. after the approval of BRSA as of 14 January 2016. According to the decision of the board of the directors dated 18 July 2016, Anadolu Industry Holding decided to use the right of sale for 192,500,000 (%25) registered share certificates included in "Shareholder's Agreement", which signed with The Commercial Bank (Q.S.C) on 18 July 2013, which is owned by that related to the bank’s association at Alternatifbank A.Ş. as of 18th July 2016. Share sale price has been calculated as 222.500.000 USD according to the base price method in Shareholder’s Agreement. A notice about this subject has been sent to Q.S.C. at the same time.

The registered office address of the Bank is at Cumhuriyet Caddesi No: 46 Elmadağ / Istanbul.

The condensed consolidated financial statements of the Bank were authorized for issue by the management on 19 August 2016. The ultimate parent of the Bank is The Commercial Bank of Qatar.

For the purposes of the condensed consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as “the Group”.

The operations of the Group consist of banking, brokerage, leasing and portfolio management in capital markets conducted mainly with local customers.

The Bank provides banking services through 54 (31 December 2015: 59) branches in Turkey. At 30 June 2016, the Group has 981 employees (31 December 2015: 1,107).

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

NOTE 1 - GENERAL INFORMATION (Continued)

The subsidiaries and the Bank's shareholding included in consolidation and their shareholding percentages at 30 June 2016 and 31 December 2015 are as follows:

	Place of Incorporation	Effective shareholding % 30 June 2016	Effective shareholding % 31 December 2015
Alternatif Menkul Değerler A.Ş. ⁽¹⁾	Istanbul/Turkey	100.00	100.00
Alternatif Finansal Kiralama A.Ş.	Istanbul/Turkey	99.99	99.99
Alternatif Portföy Yönetimi A.Ş. ⁽²⁾	Istanbul/Turkey	-	100.00

The principal activities of the consolidated subsidiaries are as follows:

- (1) Title of "Alternatif Yatırım A.Ş." changed as "Alternatif Menkul Değerler A.Ş." and the company name registered as "A Menkul" instead of "A Yatırım" as of 19 April 2016, with the decision of General Assembly meeting, dated 7 April 2016. Alternatif Menkul Değerler A.Ş. renders brokerage and investment banking services to customers in line with the rules of the Capital Market Board of Turkey.
- (2) According to the conclusion of there will be no benefits by the continuing activities of Alternatif Portföy Yönetimi A.Ş. which is owned 100% by Alternatif Yatırım A.Ş., liquidation procedures has begun after the decision of board of Alternatif Portföy Yönetimi A.Ş. dated 27 August 2014. By the same date, application made to the Capital Markets Board. Operating licence and portfolio management certificate of the Alternatif Portföy Yönetimi A.Ş. is cancelled on 5 December 2014 and its title changed as Elmadağ Dış Ticaret A.Ş. on 6 March 2015. The liquidation is approved on 23 February 2016.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 2 – BASIS OF PRESENTATION

The Bank and its subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira (“TL”) in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency (“BRSA”), regulations promulgated by the Capital Markets Board of Turkey and also the Turkish Commercial Code.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

NOTE 3 – BASIS OF PREPERATION

These condensed consolidated interim financial statements are presented in Turkish Lira (“TL”), which is the Bank’s functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

The condensed consolidated interim financial statements are prepared on the historical cost basis, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose and available-for-sale investment securities whose fair value can reliably be measured.

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements as of 30 June 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting of IFRS and are in compliance with the accounting policies used to prepare the financial statements as of 31 December 2015. Therefore the condensed consolidated financial statements should be read in conjunction with the financial statements of the Group for the year ended 31 December 2015.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention, except for trading securities, available-for-sale securities and derivative financial instruments that have been measured at fair value.

Except as described below, 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. The following changes in accounting policies are also reflected in the Group’s consolidated financial statements as at and for the period ending 30 June 2016.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective and not early adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the six month period ended 30 June 2016, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

IFRS 9 Financial Instruments

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

NOTE 5 – BASIS OF CONSOLIDATION

Methodology

The accompanying condensed consolidated interim financial statements include the accounts of the Bank and its subsidiaries on the basis set out in section below. The financial statements of the subsidiaries included in the consolidation have been prepared as of the date of the condensed consolidated interim financial statements.

For the purposes of the accompanying condensed consolidated interim financial statements, the subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as Bank, using consistent accounting policies.

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 5 – BASIS OF CONSOLIDATION (Continued)

The equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position and statement of profit or loss, respectively.

All intra-group balances, transactions and unrealized gains on intra-group transactions are eliminated including inter-company profits and unrealized profits and losses. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

NOTE 6 – USE OF ESTIMATES AND JUDGEMENTS

The preparation of condensed consolidated interim financial statements requires management to make judgments, 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.

In preparing these condensed consolidated interim financial statements, the significant judgments 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 and for the period ended 30 June 2016.

NOTE 7 - FINANCIAL RISK MANAGEMENT

The Group’s financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements for the period ended 31 December 2015.

The Group’s foreign currency risk sensitivity and interest rate risk sensitivity are presented below:

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group’s sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against the relevant currency.

	30 June 2016		30 June 2015	
	Income statement	Equity	Income statement	Equity
USD	411	411	(120)	(120)
EUR	976	976	(133)	(133)
OTHER	39	39	(279)	(279)
Total, net	1,426	1,426	(532)	(532)

	30 June 2016		30 June 2015	
	Income statement	Equity	Income statement	Equity
USD	(411)	(411)	120	120
EUR	(976)	(976)	133	133
OTHER	(39)	(39)	279	279
Total, net	(1,426)	(1,426)	532	532

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira (“TL”) unless otherwise indicated.)

NOTE 7 - FINANCIAL RISK MANAGEMENT (Continued)

Interest Rate Risk

Even though the Bank is exposed to structural interest rate risk on its balance sheet due to the nature of its existing activities, it ensures that this risk remains within pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive balance sheet items, are conducted to manage this risk.

The bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value, as defined in the relevant regulation published by BRSA. Beside the BRSA standard interest rate shock scenario, other internally defined scenarios are also simulated.

Trading and non-trading risks are approved separately in the policy documents and the Asset Liability Committee is given discretion in defining the tools and methodology used in measuring, monitoring and managing both trading and non-trading risks.

Interest rate sensitivity:

	Applied Shock (+/- x basis point)	Gains/ Losses	Shareholders’ Equity -Losses/ Equity
30 June 2016			
Currency			
1. TRY	(+ 500bp	(95,480)	(4.01)%
2. TRY	(-) 400bp	88,765	3.72%
3. USD	(+ 200bp	(50,415)	(2.12)%
4. USD	(-) 200bp	70,180	2.94%
5. EUR	(+ 200bp	(26,435)	(1.11)%
6. EUR	(-) 200bp	18,384	0.77%
Total (for negative shocks)		177,329	7.44%
Total (for positive shocks)		(172,330)	(7.23)%

	Applied Shock (+/- x basis point)	Gains/ Losses	Shareholders’ Equity -Losses/ Equity
31 December 2015			
Currency			
1. TRY	(+ 500bp	(89,877)	(5.29)%
2. TRY	(-) 400bp	83,776	4.93%
3. USD	(+ 200bp	(24,403)	(1.44)%
4. USD	(-) 200bp	19,839	1.17%
5. EUR	(+ 200bp	23,165	1.36%
6. EUR	(-) 200bp	(24,107)	(1.42)%
Total (for negative shocks)		79,508	4.68%
Total (for positive shocks)		(91,115)	(5.37)%

ALTERNATİFBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2016

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

NOTE 7 - FINANCIAL RISK MANAGEMENT (Continued)

Capital management

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"), these guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan loss provision and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk, in accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

The Group's regulatory capital position on a consolidated basis is as follows:

	30 June 2016	31 December 2015
Tier I capital	1,027,868	915,236
Tier II capital	1,315,865	754,375
Deductions	(3,528)	(3,584)
Total regulatory capital	2,340,205	1,666,027
Amount subject to credit risk	12,415,776	10,777,912
Amount subject to market risk	87,725	51,463
Amount subject to operational risk	925,382	938,500
Capital adequacy ratio (%)	17.43	14.16

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NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

“Currency forwards” represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

“Currency swaps” are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients’ needs.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group’s exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

30 June 2016	Contract/ notional amount	Fair values	
		Assets	Liabilities
<i>Derivatives held for trading</i>			
Currency forwards	299,022	2,395	(3,075)
Currency swaps	9,770,544	39,184	(22,165)
Currency options	3,051,622	785	(874)
Total	13,121,188	42,364	(26,114)

31 December 2015	Contract/ notional amount	Fair values	
		Assets	Liabilities
<i>Derivatives held for trading</i>			
Currency forwards	334,900	3,601	(3,766)
Currency swaps	7,842,888	23,120	(10,615)
Currency options	2,459,202	519	(478)
Total	10,636,990	27,240	(14,859)

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NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

30 June 2016	Contract/ notional amount	Fair values	
		Assets	Liabilities
Derivatives held for risk management			
Interest rate swaps (*)	220,000	-	4,237
Total	220,000	-	4,237

(*) Starting from 24 March 2014, the Bank has hedged the possible fair value effects of changes in LIBOR interest rates on instalment commercial loans with fixed payments and fixed interest rates amounting TL 32,030 thousand with a maturity 3 years and TL 46,347 thousand with a maturity 5 years funding by using interest rate swaps. The Bank has started to hedge the interest rate risk of such loans with two swaps transactions with a nominal value of TL 55,000 and 3 years maturity and with a nominal value of TL 55,000 and 5 years maturity on 24 March 2014 under fair value hedge accounting. In this context, TL 4,044 which was calculated for these loans is referred to ‘Interest on Loans’.

The impact of fair value hedge accounting application is summarized below:

30 June 2016	Asset liability hedging	Risk Hedge	Fair value of hedged asset	Net fair value of hedging account	
				Asset	Liability
Interest swap transactions	Fixed rate equal installments paid commercial installment loans	Fixed interest rate risk	4,044	-	4,237

The bank evaluates the method of hedge whether to be effective on the expected changes in fair values in this process or not or each result of hedge effectiveness whether to be between the range of 80% and 125%.

Changes in fair values of derivative transactions determined as hedge for fair value are recorded in profit or loss together with changes in hedging asset or liability. The difference in current values of derivative transactions fair value hedge is shown in “Trading gains and losses on derivative financial instruments” account. In the statement of financial position, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the “Trading gains and losses on derivative financial instruments” account.

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NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

30 June 2016

	Corporate	SME	Consumer	Credit Card	Leasing Receivables	Total
Performing loans	5,862,452	2,632,869	165,255	35,813	1,019,789	9,716,178
Loans under close monitoring	138,172	242,811	19,964	822	-	401,769
Loans under legal follow-up	181,460	350,823	23,900	3,857	58,288	618,328
Gross	6,182,084	3,226,503	209,119	40,492	1,078,077	10,736,275
Specific allowance for impairment	87,407	221,572	15,779	10,211	31,739	366,708
Collective allowance for impairment	118,038	8,538	2,957	59	-	129,592
Total allowance for impairment	205,445	230,110	18,736	10,270	31,739	496,300
Net	5,976,639	2,996,393	190,383	30,222	1,046,338	10,239,975

31 December 2015

	Corporate	SME	Consumer	Credit Card	Leasing Receivables	Total
Performing loans	5,162,012	3,205,170	194,351	59,709	882,826	9,504,068
Loans under close monitoring	126,217	311,406	27,425	5,415	124,567	595,030
Loans under legal follow-up	195,415	253,496	17,371	9,743	51,132	527,157
Gross	5,483,644	3,770,072	239,147	74,867	1,058,525	10,626,255
Specific allowance for impairment	87,717	143,096	11,053	6,584	29,377	277,827
Collective allowance for impairment	57,995	35,811	2,039	756	-	96,601
Total allowance for impairment	145,712	178,907	13,092	7,340	29,377	374,428
Net	5,337,932	3,591,165	226,055	67,527	1,029,148	10,251,827

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	Individual Impairment	Collective Impairment	Total
At January 1 ,2016	277,827	96,601	374,428
Charge for the period	104,568	20,937	125,505
Collection & Recoveries	(15,687)	12,054	(3,633)
Amounts written off	-	-	-
At June 30,2016	366,708	129,592	496,300
	Individual Impairment	Collective Impairment	Total
At January 1 ,2015	270,813	91,604	362,417
Charge for the year	146,524	10,821	157,345
Collection & Recoveries	(6,807)	(5,824)	(12,631)
Amounts written off ^{(*)(**)(***)}	(132,703)	-	(132,703)
At December 31,2015	277,827	96,601	374,428

(*) The Bank has disposed non-performing loan corresponds to provision amount of TL 13,839 and has collected TL 2,500 on 31 March 2015.

(**) The Bank has disposed non-performing loans correspond to provision amount of TL 108,499 to Güven Varlık Yönetim A.Ş and has collected TL 4,650 on 5 May 2015.

(***) Alternatif Finansal Kiralama A.Ş. has sold non-performing loans correspond to provision amount of TL 10,365 to Artı Varlık Yönetim A.Ş and has collected TL 125 on 29 May 2015.

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NOTE 10 - INVESTMENT SECURITIES

(i) Held for trading

There is no held for trading securities as at 30 June 2016 (31 December 2015: None) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

(ii) Securities available-for-sale

	<u>30 June 2016</u>	<u>31 December 2015</u>
Debt securities - at fair value:		
Government bonds and treasury bills	1,701,508	436,420
Government bonds and treasury bills sold under repurchase agreements	212,175	379,683
Equity Shares	4,882	-
Total securities available-for-sale	1,918,565	816,103

Available-for-sale whose total carrying amount is TL 232,087 as at 30 June 2016 (31 December 2015: TL 379,683) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

Available-for-sale securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amounting to TL 361,887 (31 December 2015: TL 347,792).

There are no impairments recognised for available-for-sale securities.

(iii) Securities held-to-maturity

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey.

In 2014, the Bank has sold a significant portion of its securities, classified in held to maturity portfolio in 2013 amounting TL 1,727,972 before the maturity dates of such securities. Therefore the Bank will not classify its investment in held to maturity portfolio for two years beginning from 1 January 2015.

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NOTE 11 - OTHER BORROWED FUNDS AND SUBORDINATED DEBT

	30 June 2016	31 December 2015
Foreign institutions and banks		
Syndication loans	1,006,839	1,011,645
Subordinated liabilities	1,233,160	767,558
Other	1,956,059	2,562,988
Total foreign	4,196,058	4,342,191
Domestic banks	542,652	687,504
Total domestic	542,652	687,504
Total	4,738,710	5,029,695

The details of subordinated loans of the Bank as of 30 June 2016 are presented in the table below:

Lender	Principal Amount	Opening Date	Maturity	Interest rate (%)
The Commercial Bank	USD 125,000	30 June 2015	10 years+1 day	Libor + 6.00
Foreign Market Capital Investors	USD 300,000	15 April 2016	10 years+1 day	8.75

NOTE 12 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Bank consists of 770 million (31 December 2015: 620 million) authorised shares with a nominal value of TL 1 each. The Bank's authorised capital amounts to TL 770,000 (31 December 2015: TL 620,000).

Shareholders	30 June 2016		31 December 2015	
	Participation rate (%)	TL thousand	Participation rate (%)	TL thousand
Commercial Bank of Qatar	75.00%	577,500	75.00%	465,000
Anadolu Endüstri Holding A.Ş. (**)	25.00%	192,500	17.21%	106,683
Anadolu Aktif Teşebbüs ve Makine Ticaret A.Ş. (**)	-	-	7.79%	48,317
Historical share capital^(*)	100.00%	770,000	100%	620,000
Share premium		54		54
Total share capital and share premium		770,054		620,054

(*) Paid in capital of the Bank has increased to TL 770,000 by TL 150,000 in cash on 14 April 2016.

(**) The 7.79 % share of the Bank's, owned by the Anadolu Aktif Teşebbüs ve Makine Ticaret A.Ş., and is acquired by Anadolu Endüstri Holding A.Ş. after the approval of BRSA as of 14 January 2016. According to the decision of the board of the directors dated 18 July 2016, Anadolu Industry Holding decided to use the right of sale for 192,500,000 (%25) registered share certificates included in "Shareholder's Agreement", which signed with The Commercial Bank (Q.S.C) on 18 July 2013, which is owned by that related to the bank's association at Alternatifbank A.Ş. as of 18th July 2016. Share sale price has been calculated as 222.500.000 USD according to the base price method in Shareholder's Agreement. A notice about this subject has been sent to Q.S.C. at the same time.

NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 30 June 2016 and 31 December 2015.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

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NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Legal proceedings (Continued)

In respect of the further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group’s financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table shows the outstanding credit related commitments of the Group:

30 June 2016 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	246,580	-	-	246,580
Letter of guarantees	715,216	1,229,467	-	-	1,944,683
Acceptance credits	-	17,747	-	-	17,747
Other commitments	2,046,244	-	-	-	2,046,244
Total	2,761,460	1,493,794	-	-	4,255,254

31 December 2015 (*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	102,820	226,550	16,356	345,726
Letter of guarantees	2,241,064	-	-	-	2,241,064
Acceptance credits	-	4,236	31,613	-	35,849
Other commitments	1,011,861	20,820	-	-	1,032,681
Total	3,252,925	127,876	258,163	16,356	3,655,320

(*) Based on original maturities

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NOTE 14 - SEGMENT ANALYSIS

The Group is organized into two main business segments which are organized and managed separately according to the nature of the products and services provided.

30 June 2016	Commercial Banking	Investment Banking	Other	Group
Net interest income	172,909	28,214	-	201,123
Net fees and commission income and other operating income	30,484	(17,625)	-	12,859
Dividend income	-	-	-	-
(Provisions for)/ recoveries from impairment loan receivables	(118,045)	-	-	(118,045)
Trading gain / loss	-	(19,965)	-	(19,965)
Other operating expenses	(135,910)	(14,474)	-	(150,384)
Profit before income tax	(50,562)	(23,850)	-	(74,412)
Tax provision				16,562
Profit after income tax				(57,850)
Non-controlling interest			(1)	(1)
Net profit	(50,562)	(23,850)	16,562	(57,850)
Asset and liabilities				
Segment assets	10,331,531	3,949,240	534,257	14,815,028
Total assets	10,331,531	3,949,240	534,257	14,815,028
Segment liabilities	8,406,787	2,777,371	2,469,677	13,653,835
Unallocated liabilities	125,483	19,484	1,016,226	1,161,193
Total liabilities	8,532,270	2,796,855	3,485,903	14,815,028

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NOTE 14 - SEGMENT ANALYSIS (Continued)

30 June 2015	Commercial	Investment	Other	Group
	Banking	Banking		
Net interest income	285,402	(12,032)	-	273,370
Net fees and commission income and other operating income	17,462	2,639	-	20,101
Dividend income	-	-	-	-
(Provisions for)/ recoveries from impairment loan receivables	(60,713)	(3,244)	-	(63,957)
Trading gain / loss	(2,904)	5,030	-	2,126
Other operating expenses	(130,910)	(6,255)	-	(137,165)
			-	
Profit before income tax	108,337	(13,862)	-	94,475
Tax provision	(20,147)	529	-	(19,618)
Profit after income tax	88,190	(13,333)	-	74,857
<hr/>				
Non-controlling interest	-	-	(184)	(184)
Net profit	88,190	(13,333)	(184)	74,673
<hr/>				
31 December 2015				
Asset and liabilities				
Segment assets	10,403,625	2,901,045	637,370	13,942,040
Total assets	10,403,625	2,901,045	637,370	13,942,040
Segment liabilities	7,180,942	3,727,150	1,999,244	12,907,336
Unallocated liabilities	112,989	20,612	901,103	1,034,704
Total liabilities	7,293,931	3,747,762	2,900,347	13,942,040

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NOTE 15 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Commercial Bank of Qatar owning 75% of the ordinary shares.

A number of transactions were entered into with related parties in the normal course of business.

(i) Balances with related parties:

	30 June 2016		31 December 2015	
	Total	Share in total %	Total	Share in total %
Loans and advances to customers, net	206,303	2.24	210,752	2.29
Total assets	206,303		210,752	2.29
Due to customers	868,266	12.02	350,691	5.96
Total liabilities	868,266		350,691	5.96
Credit related commitments	97,140	2.28	79,905	2.19
Total commitments and contingent liabilities	97,140		79,905	

(ii) Transactions with related parties:

	30 June 2016		30 June 2015	
	Total	Share in total %	Total	Share in total %
Interest income on loans and advances to customers	4,404	1.06	2,973	0.75
Commission income on credit related commitments	913	-	1,159	-
Total interest and fee income	5,317		4,132	
Interest expense on deposits	37,690	15.27	39,963	20.98
Total interest and fee expense	37,690		39,963	

(iii) Balances with directors and other key management personnel:

Salaries and other benefits paid to the Group’s key management approximately amount to TL 14,345 as of 30 June 2016 (30 June 2015: TL 11,773).

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NOTE 16 - SUBSEQUENT EVENTS

According to the decision of the board of the directors dated 18 July 2016, Anadolu Industry Holding decided to use the right of sale for 192.500.000 (%25) registered share certificates included in "Shareholder's Agreement", which signed with The Commercial Bank (Q.S.C) on 18 July 2013, which is owned by that related to the bank's association at Alternatifbank A.Ş. as of 18th July 2016. Share sale price has been calculated as 222,500,000 USD according to the base price method in Shareholder's Agreement. A notice about this subject has been sent to Q.S.C. at the same time.

On July 22, 2016, the Bank entered into a one-year syndicated loan facility with 18 banks in the amounts of USD 110.0 million and EUR 103.75 million, bearing interest LIBOR plus 1.40% and EURIBOR plus 1.30% respectively.

NOTE 17 – EARNINGS PER SHARE

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the period concerned.

	30 June 2016	30 June 2015
Profit/(loss) attributable to equity holders of the Bank	(57,849)	74,673
Weighted average number of ordinary shares in issue (thousand) ^(*)	683,333	620,000
Basic earnings per share (expressed in Full TL)	(0.0847)	0.1204

^(*) Weighted average number of issued ordinary shares, calculated by considering the capital increase as of 14 April 2016.