KPMG

**Alternatifbank Anonim Şirketi**
**And Its Subsidiaries**

Condensed Consolidated Interim Financial Statements
For the six-month period ended 30 June 2017
With Independent Auditors' Review Report Thereon

11 August 2017

*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 23 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 2017, the condensed consolidated statements of profit or loss, 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 2017 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

Funda Aslanoğlu, SMMM
Partner

11 August 2017
İstanbul, Turkey

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

| | Note | Reviewed 30 June 2017 | Audited 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank of Turkey | | 1,965,604 | 1,970,188 |
| Loans and advances to banks | | 1,315,143 | 935,016 |
| Financial assets held for trading | | 122,892 | 61,950 |
| *- Trading securities* | | *772* | *526* |
| *- Derivative financial instruments* | *8* | *122,120* | *61,424* |
| Loans and advances to customers | 9 | 10,617,963 | 10,418,805 |
| Investment securities | | 2,402,130 | 2,330,039 |
| *- Available*-for-sale | 10 | *1,579,529* | *2,330,039* |
| *- Held-to-maturity* | 10 | *822,601* | - |
| Leasing receivables | 9 | 1,409,399 | 1,238,644 |
| Other intangible assets | | 91,538 | 86,207 |
| Property and equipment | | 39,122 | 36,674 |
| Deferred tax assets | | 54,424 | 79,436 |
| Other assets | | 373,471 | 339,010 |
| **Total assets** | | **18,391,686** | **17,495,969** |
| **LIABILITIES** | | | |
| Deposits from banks | | 903,676 | 672,245 |
| Due to customers | | 8,289,645 | 8,125,742 |
| Obligations under repurchase agreements and money market fundings | | 523,297 | 526,415 |
| Other borrowed funds | 11 | 4,106,133 | 3,939,977 |
| Debt securities issued | | 1,130,920 | 1,041,580 |
| Derivative financial instruments | 8 | 136,629 | 70,444 |
| Derivatives held for risk management | 8 | 76 | 404 |
| Other provisions | | 47,518 | 49,648 |
| Retirement benefit obligations | | 8,198 | 7,722 |
| Other liabilities | | 378,840 | 299,711 |
| Subordinated liabilities | 11 | 1,503,237 | 1,504,693 |
| **Total liabilities** | | **17,028,169** | **16,238,581** |
| **EQUITY** | | | |
| Share capital | 12 | 980,000 | 980,000 |
| Share premium | 12 | 54 | 54 |
| Fair value reserves | | (112,573) | (165,167) |
| Legal reserves | | 28,974 | 28,974 |
| Retained earnings | | 467,048 | 413,514 |
| **Equity attributable to owners of the Bank** | | **1,363,503** | **1,257,375** |
| Non-controlling interests | | 14 | 13 |
| **Total equity** | | **1,363,517** | **1,257,388** |
| **Total liabilities and equity** | | **18,391,686** | **17,495,969** |

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 2017

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

| | Note | Reviewed 30 June 2017 | Reviewed 30 June 2016 |
|---|---|---|---|
| Interest income | | 664,255 | 562,808 |
| Interest expense | | (421,206) | (361,685) |
| **Net interest income** | | **243,049** | **201,123** |
| Fee and commission income | | 39,954 | 29,499 |
| Fee and commission expense | | (9,567) | (16,640) |
| **Net fee and commission income** | | **30,387** | **12,859** |
| Foreign exchange gains and losses, net | | 24,208 | 4,385 |
| Trading gains and losses, net | | (22,858) | (30,814) |
| Gains / losses from investment securities, net | | (4,855) | 6,464 |
| **Operating income** | | **269,931** | **194,017** |
| Impairment losses on loans and credit related commitments, net | | (64,916) | (118,045) |
| Other operating expenses | | (141,410) | (150,384) |
| **Operating expense** | | **(206,326)** | **(268,429)** |
| **Profit/(Loss) before income tax** | | **63,605** | **(74,412)** |
| Income tax income/(expense) | | (9,833) | 16,562 |
| **Profit/(Loss) for the period** | | **53,772** | **(57,850)** |
| **Attributable to:** | | | |
| Equity holders of the Bank | | 53,771 | (57,849) |
| Non-controlling interest | | 1 | (1) |
| | | **53,772** | **(57,850)** |
| Basic earnings per share attributable to the equity holders of the Bank (expressed in Full TL) | 17 | 0.0549 | (0.0847) |

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

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

| | **Reviewed 1 January 2017 - 30 June 2017** | **Reviewed 1 January 2016 - 30 June 2016** |
|---|---|---|
| **Profit/(Loss) for the period** | **53,772** | **(57,850)** |
| **Items that will never be reclassified to profit or loss** | **(237)** | **(73)** |
| Re-measurements of defined benefit liability | (296) | (91) |
| Related tax | 59 | 18 |
| **Items that are or may be reclassified subsequently to profit or loss** | **52,594** | **34,388** |
| Net change in fair value of available for sale financial assets | 66,527 | 37,768 |
| Net change in available for sale financial assets transferred to profit or loss | (784) | 5,217 |
| Related tax | (13,149) | (8,597) |
| **Other comprehensive income for the period, net of income tax** | **52,357** | **34,315** |
| **Total comprehensive income for the period** | **106,129** | **(23,535)** |
| **Total comprehensive income attributable to** | | |
| Equity holders of the Bank | 106,128 | (23,534) |
| Non-controlling interests | 1 | (1) |
| **Total comprehensive income for the period** | **106,129** | **(23,535)** |

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 2017

(Amounts are expressed in thousands 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 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** |
| **Balance at 1 January 2017** | | **980,000** | **54** | **-** | **28,974** | **(165,167)** | **413,514** | **1,257,375** | **13** | **1,257,388** |
| **Total comprehensive income for the period** | | | | | | | | | | |
| **Profit for the period** | | **-** | **-** | **-** | **-** | **-** | **53,771** | **53,771** | **1** | **53,772** |
| **Other comprehensive income** | | | | | | | | | | |
| Net change in available for sale investments, net of tax | | - | - | - | - | 52,594 | - | 52,594 | - | 52,594 |
| Remeasurements of defined benefit liability | | - | - | - | - | - | (237) | (237) | **-** | **(237)** |
| **Total other comprehensive income** | | **-** | **-** | **-** | **-** | **52,594** | **(237)** | **52,357** | **-** | **52,357** |
| **Total comprehensive income for the period** | | **-** | **-** | **-** | **-** | **52,594** | **53,534** | **106,128** | **1** | **106,129** |
| **Contributions by and distributions to owners** | | | | | | | | | | |
| Transfer to legal reserves | | - | - | - | - | - | - | - | - | - |
| Purchase from non-controlling interests | | - | - | - | - | - | - | - | - | - |
| Capital Increase | | - | - | - | - | - | - | - | - | - |
| Dividends paid to non-controlling interest | | - | - | - | - | - | - | - | - | - |
| Other | | - | - | - | - | - | - | - | - | - |
| **Balance at 30 June 2017** | | **980,000** | **54** | **-** | **28,974** | **(112,573)** | **467,048** | **1,363,503** | **14** | **1,363,517** |

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 2017

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

| | Reviewed 1 January 2017 - 30 June 2017 | Reviewed 1 January 2016 - 30 June 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Interest received | 641,490 | 552,224 |
| Interest paid | (431,732) | (331,388) |
| Fees and commissions received | 39,947 | 29,499 |
| Trading income/expense | (125,309) | (75,511) |
| Recoveries of loans previously written off | 66,270 | 99,523 |
| Fees and commissions paid | (9,567) | (16,640) |
| Cash payments to employees and other parties | (71,000) | (80,671) |
| Cash received from other operating activities | 80,888 | (177,005) |
| Cash paid for other operating activities | (84,926) | 21,018 |
| Taxes paid | (8,418) | (5,626) |
| **Cash flows from operating profits before changes in operating assets and liabilities** | **97,643** | **15,423** |
| **Changes in operating assets and liabilities:** | | |
| Trading securities | (233) | (14,390) |
| Loans and advances | (516,234) | (185,452) |
| Other assets | 157,707 | 81,816 |
| Deposits from other banks | 231,426 | (171,219) |
| Deposits | 162,442 | 1,328,013 |
| Other money market deposits | (3,118) | (128,338) |
| Other liabilities | 111,848 | 16,502 |
| **Net cash from operating activities** | **241,481** | **942,355** |
| **Cash flows from investing activities** | | |
| Purchases of available for sale securities | (1,415,870) | (2,553,764) |
| Proceeds from sale and redemption of available-for-sale securities | 1,414,365 | 1,452,302 |
| Purchases of premises and equipment | (11,667) | (13,366) |
| Proceeds from sale property and equipment | 2,367 | 4,162 |
| Purchase of intangible assets, net | (5,331) | (2,970) |
| **Net cash from investing activities** | **(16,136)** | **(1,113,636)** |
| **Cash flows from financing activities** | | |
| Proceeds from funds borrowed | 1,183,086 | 814,516 |
| Payments for funds borrowed | (943,766) | (993,671) |
| Proceeds from bond issue | 237,297 | (7,142) |
| Payments for bonds issued | (146,523) | - |
| Share capital increase | - | 150,000 |
| **Net cash from financing activities** | **330,094** | **(36,297)** |
| **Net increase/ (decrease) in cash and cash equivalents** | **555,439** | **(207,578)** |
| Effects of foreign exchange-rate changes on cash and cash equivalents | (21,597) | 14,692 |
| **Cash and cash equivalents at beginning of the period** | **1,518,017** | **1,286,866** |
| **Cash and cash equivalents at end of the period** | **2,051,859** | **1,093,980** |

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

(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 (P.S.Q.C.) 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 Boards of Turkey (CMB) 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 The Commercial Bank (P.S.Q.C.) 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 CMB on 23 July 2015. As of that date, Alternatifbank A.Ş. delisted from the stock-exchange.

As of 30 June 2017, The Commercial Bank (P.S.Q.C.) owns 100.00% of the Bank's shares. Current shareholder structure of the Bank is as follows:

| | 30 June 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| **Name of Shareholders** | **Paid in capital** | **%** | **Paid in capital** | **%** |
| The Commercial Bank (P.S.Q.C.) | 980,000 | 100% | 980,000 | 100% |
| **Total** | **980,000** | **100%** | **980,000** | **100%** |

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

The condensed consolidated interim financial statements of the Bank were authorized for issue by the management on 11 August 2017. The ultimate parent of the Bank is The Commercial Bank (P.S.Q.C.).

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

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

The Bank provides banking services through 53 (31 December 2016: 53) branches in Turkey. At 30 June 2017, the Group has 1,010 employees (31 December 2016: 1,000).

(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 2017 and 31 December 2016 are as follows:

| | Place of Incorporation | Effective shareholding % 30 June 2017 | Effective shareholding % 31 December 2016 |
|---|---|---|---|
| Alternatif Menkul Değerler A.Ş. | Istanbul/Turkey | 100.00 | 100.00 |
| Alternatif Finansal Kiralama A.Ş. | Istanbul/Turkey | 99.99 | 99.99 |

The principal activities of the consolidated subsidiaries are as follows:

The principal accounting policies applied in the preparation of these condensed consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

## 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 2017 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 2016. Therefore the condensed consolidated financial statements should be read in conjunction with the financial statements of the Group for the year ended 31 December 2016.

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").

## NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

### Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements 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 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, a new expected credit loss model for calculating impairment on financial assets, and 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 in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

*IFRS 15 Revenue from Contracts with customers*

The standard replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognising revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS. The Group is in the process of assessing the impact of the standard on the consolidated financial position or performance of the Group.

*IFRS 16 Leases*

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on- balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

## NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Standards issued but not yet effective and not early adopted (Continued)

*IFRIC 22 – Foreign Currency Transactions and Advance Consideration*

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

*Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative*

IAS 7 Statement of Cash Flows has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in consolidated financial statements. The amendments will require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for periods beginning on or after 1 January 2017, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

*Amendments to IAS 12 Income Taxes– Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

*Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions*

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is in the process of assessing the impact of the amendment on consolidated financial position or performance of the Group.

*Annual Improvements to IFRSs 2014-2016 Cycle*

*IFRS 1 "First Time Adoption of International Financial Reporting Standards"*

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters within the context of 'Annual Improvements to IFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

## NOTE 4 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Standards issued but not yet effective and not early adopted (Continued)

*IFRS 12 "Disclosure of Interests in Other Entities"*

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

*IAS 28 "Investments in Associates and Joint Ventures"*

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with 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.

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 year ended 31 December 2016.

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

## 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 year ended 31 December 2016.

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 2017 | | 30 June 2016 | |
|---|---|---|---|---|
| | Income statement | Equity | Income statement | Equity |
| USD | 8,124 | 8,124 | 411 | 411 |
| EUR | 705 | 705 | 976 | 976 |
| OTHER | 1245 | 1245 | 39 | 39 |
| **Total, net** | **10,074** | **10,074** | **1,426** | **1,426** |

| | 30 June 2017 | | 30 June 2016 | |
|---|---|---|---|---|
| | Income statement | Equity | Income statement | Equity |
| USD | (8,124) | (8,124) | (411) | (411) |
| EUR | (705) | (705) | (976) | (976) |
| OTHER | (1,245) | (1,245) | (39) | (39) |
| **Total, net** | **(10,074)** | **(10,074)** | **(1,426)** | **(1,426)** |

(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:**

| **30 June 2017** | **Applied Shock (+/- x basis point)** | **Gains/ Losses** | **Gains/ Equity-Losses/ Equity** |
|---|---|---|---|
| | +500bps | (176,545) | (6.36)% |
| 1.TRY | -400 bps | 163,085 | 5.87% |
| | +200 bps | (46,602) | (1.68)% |
| 2.EURO | -200 bps | 37,868 | 1.36% |
| | +200 bps | (72,545) | (2.61)% |
| 3.USD | -200 bps | 93,152 | 3.36% |
| **Total (For Negative Shocks)** | | **(295,692)** | **(10.65)%** |
| **Total (For Positive Shocks)** | | **294,105** | **10.59%** |

| **31 December 2016** | **Applied Shock (+/- x basis point)** | **Gains/ Losses** | **Gains/ Equity-Losses/ Equity** |
|---|---|---|---|
| | +500bps | (133,927) | (5.03)% |
| 1.TRY | -400 bps | 80,664 | 3.03% |
| | +200 bps | (42,694) | (1.61)% |
| 2.EURO | -200 bps | 42,384 | 1.59% |
| | +200 bps | (59,404) | (2.23)% |
| 3.USD | -200 bps | 77,348 | 2.91% |
| **Total (For Negative Shocks)** | | **(236,025)** | **(8.87)%** |
| **Total (For Positive Shocks)** | | **200,396** | **7.53%** |

(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 2017** | **31 December 2016** |
|---|---|---|
| Tier I capital | 1,239,448 | 1,096,436 |
| Tier II capital | 1,527,625 | 1,537,419 |
| Deductions | (10,364) | (3,699) |
| **Total regulatory capital** | **2,756,709** | **2,630,156** |
| Amount subject to credit risk | 13,708,235 | 14,409,797 |
| Amount subject to market risk | 40,938 | 153,188 |
| Amount subject to operational risk | 959,472 | 925,382 |
| **Capital adequacy ratio (%)** | **18.74%** | **16.98%** |

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

## NOTE 7 - FINANCIAL RISK MANAGEMENT (Continued)

### Loans and advances to banks

The fair value of overnight loans and advances to banks are considered to approximate its carrying amounts. The estimated fair values of long term interest bearing loans and advances to banks are based on discounted cash flows using prevailing money market interest rates at the reporting date with similar credit risk and remaining maturity.

### Loans and advances to customers

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar credit risk, currency and remaining maturity to determine their fair value.

## 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 2017** | **Contract/ notional amount** | **Fair values** | |
|---|---|---|---|
| | | **Assets** | **Liabilities** |
| ***Derivatives held for trading*** | | | |
| Currency forwards | 620,483 | 7,919 | (9,781) |
| Currency swaps | 14,887,398 | 107,920 | (119,349) |
| Currency options | 3,600,773 | 6,281 | (7,499) |
| **Total** | **19,108,654** | **122,120** | **(136,629)** |

| **31 December 2016** | **Contract/ notional amount** | **Fair values** | |
|---|---|---|---|
| | | **Assets** | **Liabilities** |
| ***Derivatives held for trading*** | | | |
| Currency forwards | 377,711 | 3,547 | (3,924) |
| Currency swaps | 12,678,120 | 46,740 | (59,907) |
| Currency options | 3,080,577 | 11,137 | (6,613) |
| **Total** | **16,136,408** | **61,424** | **(70,444)** |

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

## NOTE 8 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

| **30 June 2017** | **Contract/ notional amount** | **Fair values** | |
|---|---|---|---|
| | | **Assets** | **Liabilities** |
| **Derivatives held for risk management** | | | |
| Interest rate swaps (*) | 110,000 | - | 76 |
| **Total** | **110,000** | **-** | **76** |

(*) 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 21,297 thousand with a maturity 5 years funding by using interest rate swap. The nominal value of interest rate swap is TL 55,000 with maturity 5 years respectively. As of 24 March 2017, the difference of TL 430 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 20 March 2019.

| **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 21,297 thousand with a maturity 5 years funding by using interest rate swap. The nominal value of interest rate swap is TL 55,000 with maturity 5 years respectively. As of 24 March 2017, the difference of TL 430 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 20 March 2019.

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

**30 June 2017**

| **Hedging Instrument** | **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 | 383 | - | 76 |

**30 June 2016**

| **Hedging Instrument** | **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 Parent 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.

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

## NOTE 9 - LOANS AND ADVANCES TO CUSTOMERS

**30 June 2017**

| | Corporate | SME | Consumer | Credit Card | Leasing Receivables | Total |
|---|---|---|---|---|---|---|
| Performing loans | 6,787,345 | 3,091,962 | 174,627 | 23,026 | 1,370,230 | 11,447,190 |
| Loans under close monitoring | 241,512 | 184,684 | 9,221 | 664 | - | 436,081 |
| Loans under legal follow-up | 180,943 | 290,384 | 7,355 | 3,959 | 60,859 | 543,500 |
| **Gross** | **7,209,800** | **3,567,030** | **191,203** | **27,649** | **1,431,089** | **12,426,771** |
| Specific allowance for impairment | 122,787 | 143,325 | 3,822 | 4,935 | 21,690 | 296,559 |
| Collective allowance for impairment | 68,909 | 32,190 | 1,537 | 214 | - | 102,850 |
| **Total allowance for impairment** | **191,696** | **175,515** | **5,359** | **5,149** | **21,690** | **399,409** |
| **Net** | **7,018,104** | **3,391,515** | **185,844** | **22,500** | **1,409,399** | **12,027,362** |

**31 December 2016**

| | Corporate | SME | Consumer | Credit Card | Leasing Receivables | Total |
|---|---|---|---|---|---|---|
| Performing loans | 7,048,321 | 2,594,616 | 183,802 | 37,628 | 1,206,284 | 11,070,651 |
| Loans under close monitoring | 188,573 | 219,339 | 14,637 | 960 | - | 423,509 |
| Loans under legal follow-up | 195,459 | 338,518 | 13,848 | 5,530 | 69,345 | 622,700 |
| **Gross** | **7,432,353** | **3,152,473** | **212,287** | **44,118** | **1,275,629** | **12,116,860** |
| Specific allowance for impairment | 126,998 | 186,066 | 9,245 | 3,125 | 36,985 | 362,419 |
| Collective allowance for impairment | 67,654 | 26,474 | 2,424 | 440 | - | 96,992 |
| **Total allowance for impairment** | **194,652** | **212,540** | **11,669** | **3,565** | **36,985** | **459,411** |
| **Net** | **7,237,701** | **2,939,933** | **200,618** | **40,553** | **1,238,644** | **11,657,449** |

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

| | Individual Impairment | Collective Impairment | Total |
|---|---|---|---|
| At January 1 ,2017 | 362,419 | 96,992 | 459,411 |
| Charge for the period | 72,327 | 36,413 | 108,740 |
| Collection & Recoveries | (15,272) | (30,555) | (45,827) |
| Amounts written off (*) | (122,915) | - | (122,915) |
| **At June 30,2017** | **296,559** | **102,850** | **399,409** |

(*) The Parent Bank has sold non-performing loans of TL 104,748 with a net book value of TL 210 and provision amounting to TL 104,538 to Mega Varlık Yönetim A.Ş. on April 27, 2017 for TL 2,099.

(*) Alternatif Finansal Kiralama A.Ş has sold non-performing loans of TL 18,377 and provision amounting to TL 18,377 to Hayat Varlık Yönetim A.Ş. on April 27, 2017 for TL 25.

| | Individual Impairment | Collective Impairment | Total |
|---|---|---|---|
| At January 1 ,2016 | 277,827 | 96,601 | 374,428 |
| Charge for the year | 208,492 | 82,787 | 291,279 |
| Collection & Recoveries | (25,881) | (82,396) | (108,277) |
| Amounts written off (*) | (98,019) | - | (98,019) |
| **At December 31,2016** | **362,419** | **96,992** | **459,411** |

(*) The Group has written-off non-performing loans under the collections campaign of TL 1,759 with a net book value of TL 200 and provision amounting to TL 1,559 in May and has sold non-performing loans of TL 99,396 with a net book value of TL 2,936 and provision TL 96,460 to Turk Asset Varlık Yönetim A.Ş. on 17 August 2016.

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

## NOTE 10 - INVESTMENT SECURITIES

### (i) Securities available-for-sale

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Debt securities - at fair value: | | |
| Government bonds and treasury bills | 1,139,464 | 1,751,053 |
| Government bonds and treasury bills sold under repurchase agreements | 440,065 | 578,986 |
| **Total securities available-for-sale** | **1,579,529** | **2,330,039** |

Available-for-sale whose total carrying amount is TL 440,065 as at 30 June 2017 (31 December 2016: TL 578,986) 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 100,126 (31 December 2016: TL 507,730).

There are impairments recognised for available-for-sale securities amounting to TL 8,252 (31 December 2016: TL 12,986).

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

## NOTE 10 - INVESTMENT SECURITIES (Continued)

### (ii) Securities held-to-maturity

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Debt securities - at amortised cost - listed: | | |
| Government bonds and treasury bills | 656,967 | - |
| Government bonds and treasury bills sold under repurchase agreements | 165,634 | - |
| **Total securities held-to-maturity** | **822,601** | **-** |

In 2014, the Parent Bank has sold a significant portion of its securities, classified in held to maturity portfolio as 31 December 2013 amounting TL 1,727,972 before the maturity dates of such securities. Therefore the Parent Bank was not able to classify its investment in held to maturity portfolio for two years beginning from 1 January 2015.

The Parent Bank has reclassified the government debt with the nominal value of TL 819,414 from the Available-for-Sale Financial Assets portfolio to the Held-to-Maturity investments portfolio.

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

Held-to-maturity securities whose total carrying amount is TL 165,634 as at 30 June 2017 (31 December 2016: None) are pledged to banks and other financial institutions against funds obtained under repurchase agreements.

Held-to-maturity 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 amount to TL 491,334 (31 December 2016: None).

The movement in held-to-maturity securities at 30 June 2017 is as follows:

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| **At 1 January** | **-** | **-** |
| Transferred from available for sale securities | 828,402 | - |
| Disposals / redemption | - | - |
| Change in amortised cost (-) | 5,801 | - |
| **Total securities held-to-maturity** | **822,601** | **-** |

## NOTE 11 - OTHER BORROWED FUNDS AND SUBORDINATED DEBT

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| **Foreign institutions and banks** | | |
| Syndication loans | 805,150 | 773,800 |
| Subordinated liabilities | 1,503,237 | 1,504,693 |
| Other | 2,731,462 | 2,469,115 |
| **Total foreign** | **5,039,849** | **4,747,608** |
| Domestic banks | 569,521 | 697,062 |
| **Total domestic** | **569,521** | **697,062** |
| **Total** | **5,609,370** | **5,444,670** |

The details of subordinated loans of the Parent Bank as of 30 June 2017 are presented in the table below:

| Lender | Amount (‘000) | Opening Date | Maturity | Interest Rate (%) |
|---|---|---|---|---|
| Foreign Capital Market Investors | USD 300,000 | 15 April 2016 | 10 years+1 day | 8.75% |
| The Commercial Bank (P.S.Q.C) | USD 125,000 | 30 June 2015 | 10 years+1 day | Libor + 6.00 |

## NOTE 12 - SHARE CAPITAL AND SHARE PREMIUM

The historical amount of share capital of the Bank consists of TL 980,000 (31 December 2016: TL 980,000) authorised shares with a nominal value of TL 1 each. The Bank’s authorised capital amounts to TL 980,000 (31 December 2016: TL 980,000).

| | 30 June 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| **Shareholders** | **Participation rate (%)** | **TL thousand** | **Participation rate (%)** | **TL thousand** |
| The Commercial Bank (P.S.Q.C.) | 100% | 980,000 | 100% | 980,000 |
| **Historical share capital** | **100%** | **980,000** | **100%** | **980,000** |
| Share premium | | 54 | | 54 |
| **Total share capital and share premium** | | **980,054** | | **980,054** |

## 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 2017 and 31 December 2016.

### 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.

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.

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

## NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

### 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 2017 (*) | Indefinite | Not later than 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Letter of credits | - | 73,819 | 132,025 | 96,964 | 302,808 |
| Letter of guarantees | 6,023 | 1,089,216 | 1,087,725 | 258,185 | 2,441,149 |
| Acceptance credits | - | 473 | 4,460 | 802 | 5,735 |
| Other commitments | 968,955 | - | - | - | 968,955 |
| **Total** | **974,978** | **1,163,508** | **1,224,210** | **355,951** | **3,718,647** |

(*) Based on original maturities

| 31 December 2016 (*) | Indefinite | Not later than 1 year | 1-5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Letter of credits | - | 61,171 | 130,629 | 73,876 | 265,676 |
| Letter of guarantees | 6,140 | 811,418 | 1,034,255 | 234,574 | 2,086,387 |
| Acceptance credits | - | 390 | 1,432 | 2,063 | 3,885 |
| Other commitments | 972,788 | - | - | - | 972,788 |
| **Total** | **978,928** | **872,979** | **1,166,316** | **310,513** | **3,328,736** |

(*) Based on original maturities

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

## 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 2017 | Commercial Banking | Investment Banking | Other | Group |
|---|---|---|---|---|
| Net interest income | 253,175 | (10,126) | - | 243,049 |
| Net fees and commission income and other operating income/expense | 29,171 | 1,216 | - | 30,387 |
| Net interest income | - | - | - | - |
| (Provisions for) / recoveries from impairment loan receivables | (60,827) | (4,089) | - | (64,916) |
| Trading gain / loss | (2,856) | (649) | - | (3,505) |
| Other operating expenses | (135,988) | (5,422) | - | (141,410) |
| **Profit before income tax** | **82,675** | **(19,070)** | **-** | **63,605** |
| Tax provision | | | | (9,833) |
| **Profit after income tax** | | | | **53,772** |
| Non-controlling interest | | | | 1 |
| **Net profit** | | | | **53,772** |
| **Asset and liabilities** | | | | |
| Segment assets | 12,063,515 | 5,582,427 | 745,744 | 18,391,686 |
| **Total assets** | **12,063,515** | **5,582,427** | **745,744** | **18,391,686** |
| Segment liabilities | 10,378,983 | 3,775,348 | 2,873,838 | 17,028,169 |
| Unallocated liabilities | 119,965 | 20,101 | 1,223,451 | 1,363,517 |
| **Total liabilities** | **10,498,948** | **3,795,449** | **4,097,289** | **18,391,686** |

| 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/expense | 30,484 | (17,625) | - | 12,859 |
| Net interest 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) |
| **Net profit** | | | | **(57,850)** |
| **31 December 2016** | | | | |
| **Asset and liabilities** | | | | |
| Segment assets | 11,708,362 | 4,961,147 | 826,460 | 17,495,969 |
| **Total assets** | **11,708,362** | **4,961,147** | **826,460** | **17,495,969** |
| Segment liabilities | 9,866,067 | 3,595,904 | 2,776,610 | 16,238,581 |
| Unallocated liabilities | 127,626 | 19,829 | 1,109,933 | 1,257,388 |
| **Total liabilities** | **9,993,693** | **3,615,733** | **3,886,543** | **17,495,969** |

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

## 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 The Commercial Bank (P.S.Q.C.) owning 100% 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 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | Total | Share in total % | Total | Share in total % |
| Loans and advances to customers, net | 100,618 | 0.95 | 18,795 | 0.18 |
| **Total assets** | **100,618** | **0.95** | **18,795** | **0.18** |
| Due to customers | 89,295 | 1.08 | 21,532 | 0.26 |
| **Total liabilities** | **89,295** | **1.08** | **21,532** | **0.26** |
| Credit related commitments | 100,064 | 2.69 | 80,452 | 2.42 |
| **Total commitments and contingent liabilities** | **100,064** | | **80,452** | |

(ii) Transactions with related parties:

| | 30 June 2017 | | 30 June 2016 | |
|---|---|---|---|---|
| | Total | Share in total % | Total | Share in total % |
| Interest income on loans and advances to customers | 404 | 0.08 | 4,404 | 1.06 |
| Commission income on credit related commitments | 33 | - | 913 | - |
| **Total interest and fee income** | **437** | | **5,317** | |
| Interest expense on deposits | 16,619 | 6.23 | 37,690 | 15.27 |
| **Total interest and fee expense** | **16,619** | | **37,690** | |

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

Salaries and other benefits paid to the Group's key management amount to TL 8,043 as of 30 June 2017 (30 June 2016: TL 14,345).

## NOTE 16 - SUBSEQUENT EVENTS

The Bank has classified the subordinated loans obtained from its controlling shareholder The Commercial Bank (P.S.Q.C), United Arab Bank (P.J.S.C.) and National Bank of Oman (S.A.O.G.) amounting to 75 million USD (from its controlling shareholder The Commercial Bank (P.S.Q.C)) of the USD 125 million respectively which were previously recognized as Tier II capital in the account of Tier I capital. Pursuant to the resolution taken by the Board of Directors of Alternatif Bank and Article 7 of the Regulation on Equity of Banks, the type of loan was changed. As of July 31, 2017 including of the loan to account of Tier I capital was approved by BRSA.

## 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 2017** | **30 June 2016** |
|---|---|---|
| Profit/(loss) attributable to equity holders of the Bank | 53,771 | (57,849) |
| Weighted average number of ordinary shares in issue (thousand) (*) | 980,000 | 683,333 (*) |
| **Basic earnings per share (expressed in Full TL)** | **0.0549** | **(0.0847)** |

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