

*(Convenience Translation of Unconsolidated Financial Statements and Related Disclosures
and Footnotes Originally Issued in Turkish, See Note I in Section Three)*

Alternatifbank A.Ş.

Unconsolidated Financial Statements
As of and For the Year Ended 31 December 2017
With Independent Auditors' Report Thereon
*(Convenience Translation of Unconsolidated Financial Statements
and Related Disclosures and Footnotes Originally Issued in Turkish)*

16 February 2018

*This report includes "Independent Auditors' Report" comprising 4
pages and; "Unconsolidated Interim Financial Statements and
Related Disclosures and Footnotes" comprising 109 pages.*

Convenience Translation of the Independent Auditors' Report Originally Prepared and Issued in Turkish to English (See Note I in Section Three)

To the Board of Directors of Alternatifbank A.Ş.;

A) Report on the Unconsolidated Financial Statements

Opinion

We have audited the unconsolidated financial statements of Alternatifbank Anonim Şirketi ("the Bank") which comprise the unconsolidated statement of financial position as at 31 December 2017 and the unconsolidated statements of income, income and expense items recognized under shareholders' equity, changes in shareholders' equity, cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of Alternatifbank A.Ş. as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the "Banking Regulation and Supervision Agency ("BRS") Accounting and Financial Reporting Legislation" which includes the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Board and circulars and interpretations published by BRS and requirements of Turkish Accounting Standards for the matters not regulated by the aforementioned legislations.

Basis for Opinion

We conducted our audit in accordance with the "Regulation on Independent Audit of the Banks" published in the Official Gazette No.29314 dated 2 April 2015 by BRS and Independent Standards on Auditing which is a component of the Turkish Auditing Standards ("TSA's) published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the POA's Code of Ethics for Independent Auditors ("Code of Ethics") together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment on loans and receivables

Refer to Section Three, Note VIII to the unconsolidated financial statements relating to the details of accounting policies and significant accounting estimates related with impairment on loans and receivables.

<i>Key audit matter</i>	<i>The audit of matter</i>
<p><i>Impairment on loans and receivables</i></p> <p>As of 31 December 2017 loans and receivables comprise 68% of the Bank's assets.</p> <p>The Bank recognizes its losses on loans and receivables in accordance with the BRSA Accounting and Financial Reporting Legislation. In accordance with the mentioned Regulation, the assessment of impairment is basically related to the quantitative criteria together with the management's judgement.</p> <p>Those include both objective and subjective criteria which management judgment is applied. Because of subjective criteria there is a risk of misclassification of loans and receivables which prevent any determination of impairment.</p> <p>Disclosures related to impairment are presented in Section Three, Note VIII.</p>	<p>Our significant audit procedures for testing the impairment on loans and receivables are as follows:</p> <p>Design and operational effectiveness of the controls on lending, allocation, collateralization, collection, follow-up, classification and impairment processes have been tested.</p> <p>We tested the appropriateness of the provisions considering materiality levels compliant to the BRSA Accounting and Financial Reporting Legislation, value of collaterals and collection ability of the Bank.</p> <p>Sufficiencies of disclosures for impairment on loans and receivables to the financial statements have been assessed.</p>

Responsibilities of Management and Those Charged with Governance for the Unconsolidated Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these unconsolidated financial statements in accordance with the BRSA Accounting and Financial Reporting Legislation, and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Unconsolidated Financial Statements

Responsibilities of auditors in an audit are as follows:

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

As part of an audit in accordance with Regulation on Independent Audit of the Banks and TSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

B) Report on Other Legal and Regulatory Requirements

- 1) Pursuant to the fourth paragraph of Article 402 of the Turkish Commercial Code ("TCC") No. 6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period 1 January - 31 December 2017 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.
- 2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

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

Funda Aslanoğlu, SMMM
Partner

16 February 2018
Istanbul, Turkey

Additional paragraph for convenience translation to English:

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the unconsolidated financial statements and IFRS.

**THE UNCONSOLIDATED FINANCIAL REPORT OF
ALTERNATİFBANK A.Ş. AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2017**

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The unconsolidated financial report as of and for the year ended 31 December 2017 prepared in accordance with the communiqué of “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks” as regulated by the Banking Regulation and Supervision Agency, comprises the following sections.

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON THE ACCOUNTING POLICIES APPLIED IN THE CURRENT PERIOD
- INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK
- EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- DISCLOSURES RELATED TO INDEPENDENT AUDITORS' REPORT

The accompanying unconsolidated financial statements and notes to these financial statements for the year ended which are expressed, unless otherwise stated, **in thousands of Turkish Lira (TL)**, have been prepared and presented based on the accounting books of the Bank in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, and related appendices and interpretations of these, and have been independently audited and presented as attached.

Omer Hussain I H Al-Fardan Chairman of the Board of Directors	Kaan Gür CEO	Boğaç Levent Güven Financial Control and Planning Acting Executive Vice President	Alper Uzeli Financial Control Manager
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Zafer Kurtul Member of the Board of Directors and Chairman of the Board Audit and Compliance Committee	Joseph Abraham Vice-Chairman of the Board of Directors and Member of the Board Audit and Compliance Committee	İzzat Dajani Member of the Board of Directors and Member of the Board Audit and Compliance Committee
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The authorised contact person for questions on this financial report:

Name-Surname / Title : Alper Uzeli / Financial Control Manager
Telephone Number : 0 212 315 69 53
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ALTERNATİFBANK A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION ONE
GENERAL INFORMATION ABOUT THE BANK

I. Explanations on Establishment Date and Initial Status of the Bank, History Including the Changes in the Former Status

Alternatifbank A.Ş. (“the Bank”) was established in Istanbul on 6 November 1991 and started banking activities on February 1992. The Bank’s ordinary shares started to be traded in Istanbul Stock Exchange on 3 July 1995. The Bank is still a privately owned commercial bank status and provides banking services through 53 (31 December 2016: 53) branches.

The Bank made an application to Capital Market Board and Borsa İstanbul A.Ş. about to leave the partnership and delisting 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 this date, Alternatifbank A.Ş. delisted from the stock-exchange.

II. Explanations on the Capital Structure, Shareholders who Directly or Indirectly, Solely or Jointly Undertake the Management and Control of the Bank, any Changes in the Period, and Information on the Bank’s Risk Group

As of 31 December 2017, 100% of the shares of the Bank are owned by The Commercial Bank (P.S.Q.C.) Shareholder’s structure of the Bank is as follows:

Name/Commercial Name	31 December 2017		31 December 2016	
	Share Amount	Share Amount	Share Amount	Share Ratio
The Commercial Bank (P.S.Q.C.)	980,000	100%	980,000	100%
Total	980,000	100%	980,000	100%

ALTERNATİFBANK A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

GENERAL INFORMATION ABOUT THE BANK (Continued)

III. Explanation on the Board of Directors, Members of the Audit Committee, President and Executive Vice Presidents, Changes in These Matters (if any) and Shares in the Bank

Title	Name	Responsibility (*)	Indirect Share Capital (%)
Chairman of Board of Directors	Omer Hussain I H Al-Fardan	-	-
Member of Board of Directors	Joseph Abraham	Vice-Chairman of the Board of Directors, Chairman of the Executive Committee of the Board, Chairman of the Remuneration Committee, Member of the Board Audit and Compliance Committee, Member of the Risk Committee, Alternate Member of the Credit Committee	-
	Fahad Abdulrahman Badar	Member of the Credit Committee	-
	Izzat Dajani	Member of the Board Audit and Compliance Committee, Member of the Executive Committee of the Board, Member of the Remuneration Committee,	-
	Mohd İsmail M Mandani Al-Emadi	Chairman of the Risk Committee	-
	Ali Saleh N Fadala	Member of the Risk Committee	-
	Turgay Gönensin	Member of the Executive Committee of the Board, Chairman of the Credit Committee	-
	Zafer Kurtul	Member of the Executive Committee of the Board, Member of the Remuneration Committee, Chairman of the Board Audit and Compliance Committee and Alternate Member of the Credit Committee	-
Member of Board of Directors and General Manager	Cenk Kaan Gür	Member of the Credit Committee, Member of the Executive Committee of the Board	-
Executive Vice Presidents	Seher Demet Tanrıöver Çaldağ	Credit Risk Management-Chief Risk Officer	-
	Ahmet Kağan Yıldırım	Chief Business Officer	-
	Suat Çetin	Information Technologies (Acting) and Operations-Chief Operating Officer	-
	Esra Kırıak	Commercial and SME Banking	-
	Musa Kerim Mutluay	Restructuring and Legal Follow-up	-
	Durul Selçuk	Human Resources	-
	Muzaffer Gökhan Songül	Credit Allocation	-
	Şakir Sömek	Financial Institutions	-
	Boğaç Levent Güven	Treasury, Financial Control and Planning (Acting)	-
Chairman of Board of Inspectors	Mustafa Mutlu Çalışkan	Board of Inspectors	-

(*) With the decision number 2 of the Board of Directors dated on 18 January 2017, Gerard George Risk was resigned from the Board of Directors.

(*) With the decision number 45 of the Board of Directors dated on 13 April 2017, Kimberley Ann Reid was resigned from the Board of Directors and Ali Saleh N Alfalada is appointed as member of Board of Directors.

(*) With the decision number 14 of the Board of Directors dated on 31 January 2017, Boğaç Levent Güven is appointed as Executive Vice President.

(*) With the decision number 97 of the Board of Directors dated on 9 August 2017, Didem Çerçi and Paul Gossiaux were resigned from the Board of Directors and Zafer Kurtul and Turgay Gönensin are appointed as member of Board of Directors.

(*) With the decision number 106 of the Board of Directors dated on 19 September 2017, Müge Öner was resigned from the General Manager and Board of Directors and Cenk Kaan Gür is appointed as General Manager and member of Board of Directors.

(*) With the decision number 125 of the Board of Directors dated on 19 October 2017, Kağan Gündüz was resigned from Financial Control and Planning Executive Vice President and Treasury Executive Vice President Boğaç Levent Güven is appointed as Financial Control and Planning Acting Executive Vice President.

(*) With the decision number 127 of the Board of Directors dated on 19 October 2017, Tanol Türkoğlu was resigned from Information Technologies and Operations Chief Operating Officer and Operations-Consumer Relations Coordination Officer Suat Çetin is appointed as Information Technologies and Operations Acting Chief Operating Officer.

(*) With the decision number 151 of the Board of Directors dated on 27 November 2017, Mete Hakan Güner was resigned from Commercial Banking Executive Vice President and with the decision number 138 of the Board of Directors dated on 27 November 2017, Esra Kırıak is appointed as Commercial and SME Banking Executive Vice President.

ALTERNATİFBANK A.Ş.
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

GENERAL INFORMATION ABOUT THE BANK (Continued)

IV. Information on the Bank's Qualified Shareholders

According to the Banking Act No: 5411 regarding definition of Qualified Shares and Bank Transactions that are subject to Permission and Indirect Shareholding Regulation's article 13, direct and indirect qualified shareholders of the Bank's Capital is as follows.

Name/Commercial Title	Share Amounts (Nominal)	Share Rates	Paid-in Capital (Nominal)	Unpaid Portion
The Commercial Bank (P.S.Q.C.)	980,000	100.00%	980,000	-

V. Summary Information on the Bank's Activities and Services

The Bank's operations are extending TL and foreign currency cash and non-cash loans, performing Capital market transactions, opening deposit and making other banking transactions according to regulation principles given by the Bank's Articles of Association.

As of 31 December 2017, the Bank has 53 branches (31 December 2016: 53 branches) and has 947 employees (31 December 2016: 928 employees).

VI. Differences Between the Communique on Preparation of Unconsolidated Financial Statements of Banks and Turkish Accounting Standards and Short Explanation About the Institutions Subject to Line-by-Line Method or Proportional Consolidation and Institutions Which Are Deducted From Equity or Not Included in These Three Methods

None.

VII. Existing or Potential, Actual or Legal Obstacles to Immediate Transfer of Equity or Repayment of Debt between the Bank and Its Subsidiaries

None.

ALTERNATİFBANK A.Ş.

UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

AS AT 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)	Note (Section Five)	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	Total	TL	FC	Total
ASSETS							
I. CASH AND BALANCES WITH CENTRAL BANK	I-a	253,029	2,034,382	2,287,411	149,340	1,820,848	1,970,188
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (Net)	I-b	86,814	11,313	98,127	26,673	35,277	61,950
2.1 Financial Assets Held for Trading		86,814	11,313	98,127	26,673	35,277	61,950
2.1.1 Public Sector Debt Securities		5,141	1,253	6,394	-	526	526
2.1.2 Equity Securities		-	-	-	-	-	-
2.1.3 Derivative Financial Assets Held for Trading		81,673	10,060	91,733	26,673	34,751	61,424
2.1.4 Other Marketable Securities		-	-	-	-	-	-
2.2 Financial Assets at Fair Value Through Profit and Loss		-	-	-	-	-	-
2.2.1 Government Debt Securities		-	-	-	-	-	-
2.2.2 Equity Securities		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other Marketable Securities		-	-	-	-	-	-
III. BANKS	I-c	45,293	234,597	279,890	120,814	419,583	540,397
IV. MONEY MARKET PLACEMENTS		350,122	-	350,122	350,081	-	350,081
4.1 Interbank Money Market Placements		-	-	-	-	-	-
4.2 Receivables from Istanbul Stock Exchange Money Market		-	-	-	-	-	-
4.3 Receivables from Reverse Repurchase Agreements		350,122	-	350,122	350,081	-	350,081
V. FINANCIAL ASSETS AVAILABLE-FOR-SALE (Net)	I-d	302,796	1,345,276	1,648,072	299,939	2,028,756	2,328,695
5.1 Share Certificates		4,898	-	4,898	4,721	-	4,721
5.2 Government Debt Securities		295,393	1,001,463	1,296,856	293,186	1,701,761	1,994,947
5.3 Other Marketable Securities		2,505	343,813	346,318	2,032	326,995	329,027
VI. LOANS	I-e	7,655,436	5,470,591	13,126,027	5,298,550	5,272,137	10,570,687
6.1 Loans		7,395,594	5,470,591	12,866,185	5,085,781	5,272,137	10,357,918
6.1.1 Loans to the Bank's Risk Group		264	274,382	274,646	161	121,210	121,371
6.1.2 Public Sector Debt Securities		-	-	-	-	-	-
6.1.3 Other		7,395,330	5,196,209	12,591,539	5,085,620	5,150,927	10,236,547
6.2 Non Performing Loans		601,858	-	601,858	553,355	-	553,355
6.3 Specific Provisions (-)		342,016	-	342,016	340,586	-	340,586
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. HELD-TO-MATURITY INVESTMENTS (Net)	I-f	-	881,860	881,860	-	-	-
8.1 Public Sector Debt Securities		-	881,860	881,860	-	-	-
8.2 Other Marketable Securities		-	-	-	-	-	-
IX. INVESTMENTS IN ASSOCIATES (Net)	I-g	-	-	-	-	-	-
9.1 Accounted for Under Equity Method		-	-	-	-	-	-
9.2 Unconsolidated Associates		-	-	-	-	-	-
9.2.1 Financial Investments		-	-	-	-	-	-
9.2.2 Non-financial Investments		-	-	-	-	-	-
X. INVESTMENT IN SUBSIDIARIES (Net)	I-h	166,380	-	166,380	166,380	-	166,380
10.1 Unconsolidated Financial Subsidiaries		166,380	-	166,380	166,380	-	166,380
10.2 Unconsolidated Non-Financial Subsidiaries		-	-	-	-	-	-
XI. ENTITIES UNDER COMMON CONTROL (JOINT VENTURES) (Net)	I-i	-	-	-	-	-	-
11.1 Consolidated Under Equity Method		-	-	-	-	-	-
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial Joint Ventures		-	-	-	-	-	-
11.2.2 Non-Financial Joint Ventures		-	-	-	-	-	-
XII. LEASE RECEIVABLES (Net)	I-j	-	-	-	-	-	-
12.1 Finance Lease Receivables		-	-	-	-	-	-
12.2 Operation Lease Receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned Income (-)		-	-	-	-	-	-
XIII. HEDGING DERIVATIVE FINANCIAL ASSETS	I-k	1,632	-	1,632	-	-	-
13.1 Fair Value Hedges		1,632	-	1,632	-	-	-
13.2 Cash Flow Hedges		-	-	-	-	-	-
13.3 Net Foreign Investment Hedges		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)		37,493	-	37,493	35,914	-	35,914
XV. INTANGIBLE ASSETS (Net)		40,411	-	40,411	34,747	-	34,747
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		40,411	-	40,411	34,747	-	34,747
XVI. INVESTMENT PROPERTY (Net)	I-l	-	-	-	-	-	-
XVII. TAX ASSET	II-i	31,835	-	31,835	46,524	-	46,524
17.1 Current Tax Asset		-	-	-	-	-	-
17.2 Deferred Tax Asset		31,835	-	31,835	46,524	-	46,524
XVIII. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	I-m	-	-	-	-	-	-
18.1 Assets Held for Sale		-	-	-	-	-	-
18.2 Assets of Discontinued Operations		-	-	-	-	-	-
XIX. OTHER ASSETS	I-n	277,138	107,755	384,893	233,160	126,034	359,194
TOTAL ASSETS		9,248,379	10,085,774	19,334,153	6,762,122	9,702,635	16,464,757

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

ALTERNATİFBANK A.Ş.

UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

AS AT 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

	Note (Section Five)	Audited 31 December 2017			Audited 31 December 2016		
		TL	FC	Total	TL	FC	Total
LIABILITIES							
I. DEPOSITS	II-a	4,859,213	6,431,171	11,290,384	4,643,384	4,265,262	8,908,646
1.1 Deposits from Bank's Risk Group		4,164	118,529	122,693	56,648	75,543	132,191
1.2 Other		4,855,049	6,312,642	11,167,691	4,586,736	4,189,719	8,776,455
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	II-b	77,996	82,824	160,820	49,287	18,725	68,012
III. FUNDS BORROWED	II-c	9,376	2,905,388	2,914,764	12,123	2,987,945	3,000,068
IV. MONEY MARKET FUNDS		144	594,470	594,614	173,326	313,068	486,394
4.1 Funds from Interbank Money Market		-	-	-	-	-	-
4.2 Funds from Istanbul Stock Exchange Money Market		-	-	-	-	-	-
4.3 Funds Provided Under Repurchase Agreements		144	594,470	594,614	173,326	313,068	486,394
V. MARKETABLE SECURITIES ISSUED (Net)			954,443	954,443		889,656	889,656
5.1 Bills		-	954,443	954,443	-	889,656	889,656
5.2 Asset Backed Securities		-	-	-	-	-	-
5.3 Bonds		-	-	-	-	-	-
VI. FUNDS		-	-	-	-	-	-
6.1 Borrower Funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
VII. MISCELLANEOUS PAYABLES		95,343	156,828	252,171	87,180	83,127	170,307
VIII. OTHER LIABILITIES	II-d	57,352	1,054	58,406	74,137	297	74,434
IX. FACTORING PAYABLES		-	-	-	-	-	-
X. LEASE PAYABLES (Net)	II-e	-	-	-	-	-	-
10.1 Finance Lease Payables		-	-	-	-	-	-
10.2 Operating Lease Payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred Financial Lease Expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES FOR HEDGING PURPOSES	II-f	-	-	-	404	-	404
11.1 Fair Value Hedges		-	-	-	404	-	404
11.2 Cash Flow Hedges		-	-	-	-	-	-
11.3 Net Foreign Investment Hedge		-	-	-	-	-	-
XII. PROVISIONS	II-g	117,116	48	117,164	111,024	8	111,032
12.1 General Loan Loss Provision		60,150	-	60,150	52,211	-	52,211
12.2 Provisions for Restructuring		-	-	-	-	-	-
12.3 Reserve for Employee Benefit		10,025	-	10,025	9,328	-	9,328
12.4 Insurance Technical Provisions (Net)		-	-	-	-	-	-
12.5 Other Provisions		46,941	48	46,989	49,485	8	49,493
XIII. TAX LIABILITY	II-h	37,080	-	37,080	21,783	-	21,783
13.1 Current Tax Liability		37,080	-	37,080	21,783	-	21,783
13.2 Deferred Tax Liability		-	-	-	-	-	-
XIV. PAYABLES FOR ASSET HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)		2,100	3,773	5,873	1,200	3,100	4,300
14.1 Held for Sale		2,100	3,773	5,873	1,200	3,100	4,300
14.2 Discontinued Operations		-	-	-	-	-	-
XV. SUBORDINATED LOANS	II-j	-	1,330,146	1,330,146	-	1,504,693	1,504,693
XVI. SHAREHOLDERS' EQUITY	II-k	1,378,547	239,741	1,618,288	1,375,837	(150,809)	1,225,028
16.1 Paid-in Capital		980,000	-	980,000	980,000	-	980,000
16.2 Capital Reserves		(81,688)	239,741	158,053	(18,435)	(150,809)	(169,244)
16.2.1 Share Premium		54	-	54	54	-	54
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Marketable Securities Valuation Reserve		(77,893)	(31,232)	(109,125)	(15,303)	(150,809)	(166,112)
16.2.4 Tangible Assets Revaluation Reserve		-	-	-	-	-	-
16.2.5 Intangible Assets Revaluation Reserve		-	-	-	-	-	-
16.2.6 Investment Property Revaluation Reserve		-	-	-	-	-	-
Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-
16.2.8 Hedging Reserves (Effective portion)		-	-	-	-	-	-
16.2.9 Value Differences of Assets Held for Resale and Discontinued Operations		-	-	-	-	-	-
16.2.10 Other Capital Reserves		(3,849)	270,973	267,124	(3,186)	-	(3,186)
16.3 Profit Reserves		405,089	-	405,089	405,089	-	405,089
16.3.1 Legal Reserves		26,254	-	26,254	26,254	-	26,254
16.3.2 Status Reserves		-	-	-	-	-	-
16.3.3 Extraordinary Reserves		378,835	-	378,835	378,835	-	378,835
16.3.4 Other Profit Reserves		-	-	-	-	-	-
16.4 Profit or (Loss)		75,146	-	75,146	9,183	-	9,183
16.4.1 Prior Years' Profit or (Loss)		9,183	-	9,183	379	-	379
16.4.2 Current Year Profit or (Loss)		65,963	-	65,963	8,804	-	8,804
TOTAL LIABILITIES		6,634,267	12,699,886	19,334,153	6,549,685	9,915,072	16,464,757

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

ALTERNATİFBANK A.Ş.
UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS
AS AT 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

II.	OFF-BALANCE SHEET ITEMS	Note (Section Five)	Audited 31 December 2017			Audited 31 December 2016		
			TL	FC	Total	TL	FC	Total
A.	OFF-BALANCE SHEET COMMITMENTS (I+II+III)		8,512,804	16,469,653	24,982,457	7,342,239	12,826,298	20,168,537
I.	GUARANTEES AND WARRANTIES	III-a-2	1,645,425	2,297,698	3,943,123	1,042,789	1,907,803	2,950,592
1.1	Letters of Guarantee	III-a-2.ii	1,643,740	1,476,023	3,119,763	1,041,129	1,045,258	2,086,387
1.1.1	Guarantees Subject to State Tender Law		24,358	26,058	50,416	19,059	17,442	36,501
1.1.2	Guarantees Given for Foreign Trade Operations		-	-	-	-	-	-
1.1.3	Other Letters of Guarantee		1,619,382	1,449,965	3,069,347	1,022,070	1,027,816	2,049,886
1.2	Bank Acceptances	III-a-2.i	-	9,564	9,564	-	3,885	3,885
1.2.1	Import Letter of Acceptance		-	3,563	3,563	-	3,885	3,885
1.2.2	Other Bank Acceptances		-	6,001	6,001	-	-	-
1.3	Letters of Credit	III-a-2.i	1,685	809,282	810,967	1,660	266,777	268,437
1.3.1	Documentary Letters of Credit		1,685	809,282	810,967	1,660	266,777	268,437
1.3.2	Other Letters of Credit		-	-	-	-	-	-
1.4	Prefinancing Given as Guarantee		-	-	-	-	-	-
1.5	Endorsements		-	-	-	-	-	-
1.5.1	Endorsements to the Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2	Other Endorsements		-	-	-	-	-	-
1.6	Securities Issue Purchase Guarantees		-	-	-	-	-	-
1.7	Factoring Guarantees		-	-	-	-	-	-
1.8	Other Guarantees	III-a-2.i	-	2,829	2,829	-	591,883	591,883
1.9	Other Warranties		-	-	-	-	-	-
II.	COMMITMENTS		529,519	24,843	554,362	604,653	252,959	857,612
2.1	Irrevocable Commitments		529,519	24,843	554,362	604,653	252,959	857,612
2.1.1	Asset Purchase and Sales Commitments		23,922	24,843	48,765	20,846	60,548	81,394
2.1.2	Deposit Purchase and Sales Commitments		-	-	-	-	192,411	192,411
2.1.3	Share Capital Commitments to Associates and Subsidiaries		-	-	-	-	-	-
2.1.4	Commitments for Loan Limits	III-a-1	152,265	-	152,265	191,311	-	191,311
2.1.5	Securities Issue Brokerage Commitments		-	-	-	-	-	-
2.1.6	Commitments for Reserve Deposit Requirements		-	-	-	-	-	-
2.1.7	Commitments for Cheques		222,642	-	222,642	218,711	-	218,711
2.1.8	Tax and Fund Liabilities from Export Commitments		3,738	-	3,738	3,738	-	3,738
2.1.9	Commitments for Credit Card Limits		85,760	-	85,760	128,405	-	128,405
2.1.10	Promotion Commitments for Credit Cards and Banking Services		-	-	-	-	-	-
2.1.11	Receivables from Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.12	Payables for Short Sale Commitments of Marketable Securities		-	-	-	-	-	-
2.1.13	Other Irrevocable Commitments		41,192	-	41,192	41,642	-	41,642
2.2	Revocable Commitments		-	-	-	-	-	-
2.2.1	Revocable Commitments for Loan Limits		-	-	-	-	-	-
2.2.2	Other Revocable Commitments		-	-	-	-	-	-
III.	DERIVATIVE FINANCIAL INSTRUMENTS	III-b	6,337,860	14,147,112	20,484,972	5,694,797	10,665,536	16,360,333
3.1	Hedging Derivative Financial Instruments		110,000	-	110,000	220,000	-	220,000
3.1.1	Transactions for Fair Value Hedge		110,000	-	110,000	220,000	-	220,000
3.1.2	Transactions for Cash Flow Hedge		-	-	-	-	-	-
3.1.3	Transactions for Foreign Net Investment Hedge		-	-	-	-	-	-
3.2	Trading Derivative Financial Instruments		6,227,860	14,147,112	20,374,972	5,474,797	10,665,536	16,140,333
3.2.1	Forward Foreign Currency Buy/Sell Transactions		228,524	282,211	510,735	124,595	253,116	377,711
3.2.1.1	Forward Foreign Currency Transactions-Buy		138,363	103,618	241,981	47,584	128,590	176,174
3.2.1.2	Forward Foreign Currency Transactions-Sell		90,161	178,593	268,754	77,011	124,526	201,537
3.2.2	Swap Transactions Related to Foreign Currency and Interest Rates		5,108,243	10,839,529	15,947,772	4,596,309	8,029,429	12,625,738
3.2.2.1	Foreign Currency Swap-Buy		1,907,232	5,835,990	7,743,222	2,773,068	3,536,711	6,309,779
3.2.2.2	Foreign Currency Swap-Sell		3,201,011	4,617,301	7,818,312	1,823,241	4,492,718	6,315,959
3.2.2.3	Interest Rate Swap-Buy		-	193,119	193,119	-	-	-
3.2.2.4	Interest Rate Swap-Sell		-	193,119	193,119	-	-	-
3.2.3	Foreign Currency, Interest Rate and Securities Options		891,093	2,965,021	3,856,114	753,893	2,326,684	3,080,577
3.2.3.1	Foreign Currency Options-Buy		458,429	1,002,718	1,461,147	310,722	849,263	1,159,985
3.2.3.2	Foreign Currency Options-Sell		432,664	1,026,929	1,459,593	443,171	708,925	1,152,096
3.2.3.3	Interest Rate Options-Buy		-	467,687	467,687	-	384,248	384,248
3.2.3.4	Interest Rate Options-Sell		-	467,687	467,687	-	384,248	384,248
3.2.3.5	Securities Options-Buy		-	-	-	-	-	-
3.2.3.6	Securities Options-Sell		-	-	-	-	-	-
3.2.4	Foreign Currency Futures		-	-	-	-	-	-
3.2.4.1	Foreign Currency Futures-Buy		-	-	-	-	-	-
3.2.4.2	Foreign Currency Futures-Sell		-	-	-	-	-	-
3.2.5	Interest Rate Futures		-	-	-	-	-	-
3.2.5.1	Interest Rate Futures-Buy		-	-	-	-	-	-
3.2.5.2	Interest Rate Futures-Sell		-	-	-	-	-	-
3.2.6	Other		-	60,351	60,351	-	56,307	56,307
B.	CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		43,220,826	18,469,677	61,690,503	39,833,977	17,692,992	57,526,969
IV.	ITEMS HELD IN CUSTODY		676,675	217,485	894,160	641,207	567,996	1,209,203
4.1	Customer Fund and Portfolio Balances		78,943	-	78,943	249,254	-	249,254
4.2	Investment Securities Held in Custody		-	3,976	38,680	42,656	6,480	40,195
4.3	Cheques Received for Collection		-	385,041	21,160	406,201	233,535	9,556
4.4	Commercial Notes Received for Collection		-	41,268	22,466	63,734	38,858	24,736
4.5	Other Assets Received for Collection		-	-	-	-	-	-
4.6	Assets Received for Public Offering		-	-	-	-	-	-
4.7	Other Items Under Custody		167,447	135,179	302,626	113,080	493,509	606,589
4.8	Custodians		-	-	-	-	-	-
V.	PLEDGES RECEIVED		41,882,119	18,054,281	59,936,400	39,177,050	17,124,804	56,301,854
5.1	Marketable Securities		116,138	-	116,138	-	-	-
5.2	Guarantee Notes		28,888,631	10,885,550	39,774,181	26,912,553	9,829,715	36,742,268
5.3	Commodity		878,474	61,671	940,145	877,870	119,322	997,192
5.4	Warranty		-	-	-	-	-	-
5.5	Immovable		9,728,792	5,639,488	15,368,280	9,117,030	5,392,089	14,509,119
5.6	Other Pledged Items		2,270,084	1,467,572	3,737,656	2,269,597	1,783,678	4,053,275
5.7	Pledged Items-Depository		-	-	-	-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES			662,032	197,911	859,943	15,720	192	15,912
TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)			51,733,630	34,939,330	86,672,960	47,176,216	30,519,290	77,695,506

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

ALTERNATİFBANK A.Ş.
UNCONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

III. INCOME STATEMENT

	Note (Section Five)	Audited 1 January 2017- 31 December 2017	Audited 1 January 2016- 31 December 2016
INCOME AND EXPENSE ITEMS			
I. INTEREST INCOME			
1.1 Interest on Loans	IV-a	1,364,977	1,052,203
1.2 Interest Received from Reserve Requirements		1,138,285	865,074
1.3 Interest Received from Banks		17,098	8,841
1.4 Interest Received from Money Market Transactions		40,224	17,471
1.5 Interest Received from Marketable Securities Portfolio		20,482	56,962
1.5.1 Trading Financial Assets		145,844	99,046
1.5.2 Financial Assets at Fair Value Through Profit or Loss		1,370	771
1.5.3 Available-for-sale Financial Assets		99,229	98,275
1.5.4 Held-to-maturity Investments		45,245	-
1.6 Financial Lease Income		-	-
1.7 Other Interest Income		3,044	4,809
II. INTEREST EXPENSE	IV-b	877,776	706,667
2.1 Interest on Deposits		624,728	494,479
2.2 Interest on Funds Borrowed		207,754	162,651
2.3 Interest Expense on Money Market Transactions		11,175	21,102
2.4 Interest on Securities Issued		29,314	25,851
2.5 Other Interest Expenses		4,805	2,584
III. NET INTEREST INCOME (I - II)		487,201	345,536
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		52,191	27,857
4.1 Fees and Commissions Received		72,363	56,954
4.1.1 Non-cash Loans		35,482	29,187
4.1.2 Other	IV-k	36,881	27,767
4.2 Fees and Commissions Paid		20,172	29,097
4.2.1 Non-cash Loans		735	542
4.2.2 Other	IV-k	19,437	28,555
V. DIVIDEND INCOME	IV-c	177	-
VI. TRADING INCOME / LOSS (Net)	IV-d	(54,296)	59,949
6.1 Trading Gains/ Losses on Securities		(1,376)	25,886
6.2 Trading Gains/ Losses on Derivative Financial Instruments		(148,067)	(59,176)
6.3 Foreign Exchange Gains/ Losses		95,147	93,239
VII. OTHER OPERATING INCOME	IV-e	70,904	91,649
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		556,177	524,991
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	IV-f	189,734	237,386
X. OTHER OPERATING EXPENSES (-)	IV-g	285,655	285,668
XI. NET OPERATING INCOME/ LOSS (VIII-IX-X)		80,788	1,937
XII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-	-
XIII. INCOME/ LOSS FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-	-
XIV. INCOME/ LOSS ON NET MONETARY POSITION		-	-
XV. INCOME/ LOSS BEFORE TAX FROM CONTINUING OPERATIONS (XI+...+XIV)	IV-h	80,788	1,937
XVI. TAX PROVISION FOR CONTINUING OPERATIONS (±)	IV-i	(14,825)	6,867
16.1 Current Tax Provision		(31,356)	(2,074)
16.2 Deferred Tax Provision		16,531	8,941
XVII. NET INCOME/ LOSS FROM CONTINUING OPERATIONS (XV±XVI)		65,963	8,804
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Income from Non-Current Assets Held for Resale		-	-
18.2 Sale Income from Associates, Subsidiaries and Joint Ventures		-	-
18.3 Other Income from Discontinued Operations		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1 Expense from Non-Current Assets Held for Resale		-	-
19.2 Sale Losses from Associates, Subsidiaries and Joint Ventures		-	-
19.3 Other Expenses from Discontinued Operations		-	-
XX. INCOME/LOSS BEFORE TAX FROM DISCONTINUED OPERATIONS (XVIII - XIX)		-	-
XXI. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)		-	-
21.1 Current Tax Provision		-	-
21.2 Deferred Tax Provision		-	-
XXII. NET PROFIT/ LOSS FROM DISCONTINUED OPERATIONS (XX± XXI)		-	-
XXIII. NET PROFIT/LOSS (XVII+XXII)	IV-j	65,963	8,804
Earnings / (Loss) Per Share in (Full TL)		0.0673	0.0121

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

ALTERNATİFBANK A.Ş.
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

IV. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDER'S EQUITY

INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY	Audited 1 January 2017- 31 December 2017	Audited 1 January 2016- 31 December 2016
I. ADDITIONS TO THE MARKETABLE SECURITIES VALUATION RESERVE FROM THE AVAILABLE FOR SALE FINANCIAL ASSETS	88,373	(173,344)
II. REVALUATION DIFFERENCES OF TANGIBLE ASSETS	-	-
III. REVALUATION DIFFERENCES OF INTANGIBLE ASSETS	-	-
IV. FOREIGN EXCHANGE TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	-	-
V. INCOME/LOSS ON CASH FLOW HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	-
VI. PROFIT/LOSS FROM FOREIGN INVESTMENT HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)	-	-
VII. EFFECTS OF CHANGES IN ACCOUNTING POLICY AND ERRORS	-	-
VIII. OTHER INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY ACCORDING TO TAS	(829)	(2,139)
IX. DEFERRED TAX ON VALUATION DIFFERENCES	(31,220)	35,097
X. NET INCOME/LOSS ACCOUNTED DIRECTLY IN EQUITY (I+II+...+IX)	56,324	(140,386)
XI. CURRENT PERIOD INCOME/LOSS	65,963	8,804
11.1 Net Change in Fair Value of Marketable Securities (Transfer to Income Statement)	(1,101)	20,709
11.2 Portion of Cash Flow Hedge Derivative Financial Assets Reclassified and Presented on the Income Statement	-	-
11.3 Portion of Foreign Investment Hedge Derivative Financial Assets Reclassified and Presented on the Income Statement	-	-
11.4 Other	67,064	(11,905)
XII. TOTAL PROFIT/LOSS RELATED TO THE CURRENT PERIOD (X±XI)	122,287	(131,582)

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

ALTERNATİFBANK A.Ş.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

V. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	31 December 2016	Note (Section Five)	Paid-in Capital	Adjustment to Share Capital	Share Premium	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Income / (Loss)	Prior Period Net Income / (Loss)	Marketable Securities Valuation Reserve	Intangible Assets Revaluation Reserve	Tangible and Intangible Assets Revaluation Reserve	Bonus Shares Obtained from Investments	Hedging Reserves	Valuation Difference of AHS and Discontinued Operations	Total Shareholders' Equity
I.	Prior Period End Balance		620,000	-	54	-	22,993	-	316,868	(1,475)	59,511	6,096	(27,437)	-	-	-	-	996,610	
Changes in the Period																			
II.	Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III.	Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	(138,675)	-	-	-	-	(138,675)	
IV.	Hedging Reserves (Effective Portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4.1	Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4.2	Foreign Investment Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
V.	Revaluation Differences of Tangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VI.	Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VII.	Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII.	Foreign Exchange Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX.	Changes due to the Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X.	Changes due to the Reclassification of the Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XI.	Effects of Changes in Equity of Investments in Associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XII.	Capital Increase		360,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	360,000	
12.1	Cash		360,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	360,000	
12.2	Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIII.	Share Premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIV.	Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XV.	Adjustment to Share Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVI.	Other		-	-	-	-	-	-	-	(1,711)	-	-	-	-	-	-	-	(1,711)	
XVII.	Net Profit or Loss for the Period		-	-	-	-	-	-	-	-	8,804	-	-	-	-	-	-	8,804	
XVIII.	Profit Distribution		-	-	-	-	3,261	-	61,967	-	(59,511)	(5,717)	-	-	-	-	-	-	
18.1	Dividend Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
18.2	Transfers to Reserves		-	-	-	-	3,261	-	61,967	-	(59,511)	(5,717)	-	-	-	-	-	-	
18.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Period End Balance (I+II+III+....+XVIII)			980,000	-	54	-	26,254	-	378,835	(3,186)	8,804	379	(166,112)	-	-	-	-	1,225,028	

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

ALTERNATİFBANK A.Ş.

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

V. STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

31 December 2017	Note (Section Five)	Paid-in Capital	Adjustment to Share Capital	Share Premium	Share Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Income / (Loss)	Prior Period Net Income / (Loss)	Marketable Securities Valuation Reserve	Intangible Assets Revaluation Reserve	Bonus Shares Obtained from Investments	Hedging Reserves	Valuation Difference of AHS and Discontinued Operations	Total Shareholders' Equity	
I. Prior Period End Balance		980,000	-	54	-	26,254	-	378,835	(3,186)	8,804	379	(166,112)	-	-	-	-	1,225,028	
Changes in the Period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
II. Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III. Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	56,987	-	-	-	-	56,987	
IV. Hedging Reserves (Effective Portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4.1 Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4.2 Foreign Investment Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
V. Revaluation Differences of Tangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VI. Revaluation Differences of Intangible Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Bonus Shares Obtained from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VII. Foreign Exchange Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX. Changes due to the Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X. Changes due to the Reclassification of the Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XI. Effects of Changes in Equity of Investments in Associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XII. Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12.1 Cash		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
12.2 Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIII. Share Premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIV. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XV. Adjustment to Share Capital		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVI. Other		-	-	-	-	-	-	-	270,310	-	-	-	-	-	-	270,310	-	
XVII. Net Profit or Loss for the Period		-	-	-	-	-	-	-	-	65,963	-	-	-	-	-	-	65,963	-
XVIII. Profit Distribution		-	-	-	-	-	-	-	-	(8,804)	8,804	-	-	-	-	-	-	-
18.1 Dividend Paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2 Transfers to Reserves		-	-	-	-	-	-	-	-	(8,804)	8,804	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period End Balance (I+II+III+...+XVIII)		980,000	-	54	-	26,254	-	378,835	267,124	65,963	9,183	(109,125)	-	-	-	-	1,618,288	-

(*) The Bank has classified the subordinated loan obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million (TL 282,893) respectively which was previously recognized as Tier II capital in the account of additional Tier I capital. Pursuant to the resolution taken by the Board of Directors of Alternatifbank and Article 7 of the Regulation on Equity of Banks, the type of loan was changed to perpetual. As of 23 June 2017 including of the loan to account of additional Tier I capital was approved by BRSA and has been transferred to the Equity as of 31 July 2017. The accumulated interest of the related subordinated loan at the date of transfer to the Equity is TL 11,920 and transferred to the Other Capital Reserves.

Other Capital Reserves include the actuarial loss amount, which transferred to the current account, amounting to TL 663.

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

ALTERNATİFBANK A.Ş.
UNCONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

VI. STATEMENT OF CASH FLOWS	Note (Section Five)	Audited 1 January 2017- 31 December 2017	Audited 1 January 2016- 31 December 2016
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating Profit/ (Loss) Before Changes in Operating Assets and Liabilities		169,635	1,117,531
1.1.1 Interest Received		1,253,266	843,455
1.1.2 Interest Paid		(876,960)	(708,504)
1.1.3 Dividend Received		-	-
1.1.4 Fees and Commissions Received		72,363	56,954
1.1.5 Other Income		345,854	142,100
1.1.6 Collections from Previously Written-off Loans and Other Receivables		125,070	103,995
1.1.7 Payments to Personnel and Service Suppliers		(141,034)	(140,444)
1.1.8 Taxes Paid		(30,271)	(53,175)
1.1.9 Other	VI-c	(578,653)	873,150
1.2 Changes in Operating Assets and Liabilities		29,274	(477,035)
1.2.1 Net (Increase)/Decrease in Trading Securities		(5,851)	(106)
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-	-
1.2.3 Net Increase/(Decrease) in due from Banks		(128,702)	(166,247)
1.2.4 Net (Increase)/Decrease in Loans		(2,332,992)	(2,193,700)
1.2.5 Net (Increase)/Decrease in Other Assets		76,492	(94,948)
1.2.6 Net (Increase)/Decrease in Bank Deposits		(158,156)	322,341
1.2.7 Net Increase/(Decrease) in Other Deposits		2,521,751	2,292,358
1.2.8 Net Increase/(Decrease) in Funds Borrowed		(131,407)	(675,238)
1.2.9 Net Increase/(Decrease) in Payables		-	-
1.2.10 Net Increase/(Decrease) in Other Liabilities	VI-c	188,139	38,505
I. Net Cash Provided from Banking Operations		198,909	640,496
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net Cash Provided from Investing Activities		(87,672)	(1,536,493)
2.1 Cash Paid for Acquisition of Investments, Associates and Subsidiaries		-	-
2.2 Cash Obtained from Disposal of Investments, Associates and Subsidiaries		-	-
2.3 Purchases of Property and Equipment		(25,947)	(27,787)
2.4 Disposals of Property and Equipment		4,628	3,396
2.5 Cash Paid for Purchase of Investments Available-for-sale		(1,559,831)	(3,811,002)
2.6 Cash Obtained from Sale of Investments Available-for-sale		1,493,478	2,298,900
2.7 Cash Paid for Purchase of Investment Securities		-	-
2.8 Cash Obtained from Sale of Investment Securities		-	-
2.9 Other		-	-
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net Cash Provided from Financing Activities		-	1,405,705
3.1 Cash Obtained from Funds Borrowed and Securities Issued		-	1,045,705
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		-	-
3.3 Issued Capital Instruments		-	360,000
3.4 Dividends Paid		-	-
3.5 Payments for Finance Leases		-	-
3.6 Other		-	-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	VI-c	(183,183)	(322,333)
V. Net Increase/ (Decrease) in Cash and Cash Equivalents (I+II+III+IV)		(71,946)	187,375
VI. Cash and Cash Equivalents at Beginning of the Period	VI-a	1,473,507	1,286,132
VII. Cash and Cash Equivalents at End of the Period	VI-a	1,401,561	1,473,507

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

ALTERNATİFBANK A.Ş.
STATEMENT OF PROFIT DISTRIBUTIONS
FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

VII. PROFIT DISTRIBUTION STATEMENT

	31 December 2017 (*)	31 December 2016 (**)
I. DISTRIBUTION OF CURRENT YEAR INCOME		
1.1. CURRENT YEAR INCOME	80,788	1,937
1.2. TAXES AND DUTIES PAYABLE (-)	(14,825)	6,867
1.2.1. Corporate Tax (Income tax)	(31,356)	(2,074)
1.2.2. Income withholding tax	-	-
1.2.3. Other taxes and duties (***)	16,531	8,941
A. NET INCOME FOR THE YEAR (1.1-1.2)	65,963	8,804
1.3. PRIOR YEAR LOSSES (-)	-	-
1.4. FIRST LEGAL RESERVES (-)	-	-
1.5. OTHER STATUTORY RESERVES (-)	-	-
B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)] (*)	65,963	-
1.6. FIRST DIVIDEND TO SHAREHOLDERS (-)	-	-
1.6.1. To Owners of Ordinary Shares	-	-
1.6.2. To Owners of Privileged Shares	-	-
1.6.3. To Owners of Preferred Shares	-	-
1.6.4. To Profit Sharing Bonds	-	-
1.6.5. To Holders of Profit and Loss Sharing Certificates	-	-
1.7. DIVIDENDS TO PERSONNEL (-)	-	-
1.8. DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
1.9. SECOND DIVIDEND TO SHAREHOLDERS (-)	-	-
1.9.1. To Owners of Ordinary Shares	-	-
1.9.2. To Owners of Privileged Share	-	-
1.9.3. To Owners of Preferred Shares	-	-
1.9.4. To Profit Sharing Bonds	-	-
1.9.5. To Holders of Profit and Loss Sharing Certificates	-	-
1.10. SECOND LEGAL RESERVES (-)	-	-
1.11. STATUTORY RESERVES (-)	-	-
1.12. EXTRAORDINARY RESERVES	-	-
1.13. OTHER RESERVES	-	-
1.14. SPECIAL FUNDS	-	-
II. DISTRIBUTION OF RESERVES	-	-
2.1. APPROPRIATED RESERVES	-	-
2.2. SECOND LEGAL RESERVES (-)	-	-
2.3. DIVIDENDS TO SHAREHOLDERS (-)	-	-
2.3.1. To owners of ordinary shares	-	-
2.3.2. To owners of privileged shares	-	-
2.3.3. To owners of preferred shares	-	-
2.3.4. To profit sharing bonds	-	-
2.3.5. To holders of profit and loss sharing certificates	-	-
2.4. DIVIDENDS TO PERSONNEL (-)	-	-
2.5. DIVIDENDS TO BOARD OF DIRECTORS (-)	-	-
III. EARNINGS PER SHARE (****)		
3.1. TO OWNERS OF ORDINARY SHARES	0.0673	0.0121
3.2. TO OWNERS OF ORDINARY SHARES (%)	6.73	1.21
3.3. TO OWNERS OF PRIVILEGED SHARES	-	-
3.4. TO OWNERS OF PRIVILEGED SHARES (%)	-	-
IV. DIVIDEND PER SHARE		
4.1 TO OWNERS OF ORDINARY SHARES	-	-
4.2. TO OWNERS OF ORDINARY SHARES (%)	-	-
4.3. TO OWNERS OF PRIVILEGED SHARES	-	-
4.4. TO OWNERS OF PRIVILEGED SHARES (%)	-	-

(*) Profit distribution is decided by the Board of Director of the Bank. Annual General Meeting has not been held as of reporting date.

(**) Statement of profit distribution related to prior period has been approved and restated in accordance with General Assembly Decision as of 29 March 2017, after issuance of audited financial statements of 31 December 2016.

(***) The amount related to the current period is deferred tax income; the amount related to the previous period is deferred tax expense.

(****) Full TL amount has been stated for each nominal amount of 1.000.

SECTION THREE
EXPLANATIONS ON ACCOUNTING POLICIES

I. Basis of Presentation

As prescribed in the Article 37 of the Banking Act No. 5411, the Bank prepares its financial statements and underlying documents in accordance with the "Regulation on the Procedures and Principles for Accounting Practices and Retention of Documents by Banks" and other regulations, explanations and circulars on accounting and financial reporting principles announced by the Banking Regulation and Supervision Agency ("BRSA") and Turkish Accounting Standards ("TAS") published by Public Oversight Accounting and Auditing Standards Authority ("POA") except for BRSA regulations. TAS consists of Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

The unconsolidated financial statements have been prepared in TL, under the historical cost basis as modified in accordance with inflation adjustments applied until 31 December 2004, except for the financial assets and liabilities carried at fair value.

The preparation of unconsolidated financial statements in conformity with BRSA Accounting and Reporting Legislation requires the use of certain critical accounting estimates by the Bank management to exercise its judgment on the assets and liabilities of the balance sheet and contingent issues as of the balance sheet date. These estimates are being reviewed regularly and, when necessary, suitable corrections are made and the effects of these corrections are reflected to the income statement.

The accounting policies and valuation principles applied in the preparation of these financial statements and valuation principles are defined and applied in accordance with BRSA Accounting and Reporting Legislation. Those accounting policies and valuation principles are explained in Notes II to XXVII below.

In order to comply with the TFRS 9 Financial Instruments standard, effective from 1 January 2018, the Bank is continuing its studies and the related studies are summarized in Notes XXVI.

Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed, and International Financial Reporting Standards ("IFRS"), may have significant influence on the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the unconsolidated financial position and unconsolidated results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

II. Strategy of Using Financial Instruments and Foreign Currency Transactions

A major portion of the Bank's funding has fixed interest rates; almost all TL placements consist of low-risk short-term transactions. Liquidity risk is monitored closely and the adequacies of available resources (which will be due within a certain period of fulfillment of obligations) are closely monitored. The maturity structure of placements is aimed to be in line with the maturities of resources of the country to the extent permitted by current conditions.

Risk bearing short term positions of currency, interest or price movements in money and capital markets is evaluated within the trading risk. The Bank evaluated the required economic Capital for trading risk and based on that risk limits are determined. This portfolio, being priced by the market on a daily basis and the limits are monitored on a daily basis. Risk limits are approved by Board of Directors once a year following the approval of the budget except a revision is required due to the economic conditions.

As of 31 December 2017 and 31 December 2016, the Bank does not have any investment in foreign companies.

III. Investments in Associates, Subsidiaries and Joint Ventures

The Bank has two subsidiaries denominated in Turkish Liras, which are are Alternatif Finansal Kiralama A.Ş., Alternatif Yatırım A.Ş. Non – public traded subsidiaries are Alternatif Finansal Kiralama A.Ş. ve Alternatif Menkul Değerler A.Ş., they are accounted for cost value according to "Individual Financial Statements" (TAS 27) and if they have provision for impairment, provision is deducted, after reflected to financial statements.

As of 31 December 2017 and 31 December 2016, the Bank has not any foreign currency association and subsidiaries.

As of 31 December 2017 and 31 December 2016, the Bank has not any joint ventures.

ALTERNATİFBANK A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

IV. Forward Transactions, Options and Derivative Instruments

The Bank uses derivative financial instruments to hedge its foreign currency and interest rate risk.

Bank's derivative transactions include foreign currency swap, interest rate swap, foreign exchange forward contracts, futures and options.

Derivatives are initially recorded with their fair values and related transaction costs as of the contract date are recorded on gain or loss. The following periods of initial reporting, they are measured with their fair values. The result of this assessment, offsetting debit and credits stemming from each contract debit and credits are reflected to the financial statements as a contract-based single asset and liability. The method of accounting gain or loss changes according to related derivative transaction whether to be held for hedges or not and to the content of hedge accounting.

The Bank notifies in written the relationship between hedging instrument and related account, risk management aims of hedge and strategies and the methods using to measure of the hedge effectiveness. 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/Losses on derivative financial instruments" account. In the balance sheet, change in fair value of hedge asset or liability during the hedge accounting to be effective is shown with the related asset or liability. In case of inferring hedge accounting, corrections made to the value of hedge account using straight-line amortization method within the days to maturity are reflected to "Trading gains/losses on derivative financial instruments" account in income statement.

The Bank classifies its derivative instruments except for derivatives held for cash flow hedges as "Held-for-hedging" or "Held-for-trading" in accordance with "Financial Instruments: Turkish Accounting Standard for Recognition and Measurement ("TAS 39")". According to this, certain derivative transactions while providing effective economic hedges under the Bank's risk management position, are recorded under the specific rules of TAS 39 and are treated as derivatives "Held-for-trading".

The notional amounts of derivative transactions are recorded in off-balance sheet accounts based on their contractual amounts. "Financial instruments at fair value through profit or loss" are measured at fair value. If the fair value of derivative financial instruments is positive, it is disclosed under the main account "financial assets at fair value through profit or loss" in "derivative financial assets held for trading" and if the fair value difference is negative, it is disclosed under "derivative financial liabilities held for trading". Fair value changes are recorded under "Derivative Financial Transactions Gains/ (Losses)" in the income statement. The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

V. Interest Income and Expense

Interest income and expenses are recognized in the income statement on an accrual basis by using the effective interest method (the rate that equals the future cash flows of a financial asset or liability to its presented book value) periodically.

The Bank ceases accruing interest income on non-performing loans and, any interest income accruals from such loans are being reversed and no income is accounted until the collection is made according to the related regulation.

VI. Fee and Commission Income and Expense

Except for the banking services revenues are recognized as income at the time of collection, commission income related with the cash and non-cash loans are deferred and recognized as income by using with the effective interest rate method depending on nature of fees and commission income derived from agreements and asset purchases for third parties are recognized as income when realized.

Fees and commission expenses paid to the other institutions are recognized as operation cost in the prepaid expense and recorded using the effective interest rate method and reflected to expense accounts in related period according to periodicity.

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**VII. Financial Assets**

Financial instruments comprise financial assets and liabilities and derivative instruments. Financial instruments constitute the basis of the Bank's business activities and operations. Risks related to these activities form a significant part among total risks the Bank undertakes. Financial instruments affect liquidity, market, and credit risks on the Bank' balance sheet in all respects. The Bank trades these instruments on behalf of its customers and on its own behalf.

Basically, financial assets create the majority of the commercial activities of the Bank. These instruments expose, affect and diminish the liquidity, credit and interest risks in the financial statements.

Regular purchases and sales of financial assets are recorded based on settlement date. Settlement date of a financial asset is the date that the asset is received or delivered by the Bank. Settlement date accounting requires; (a) accounting for the financial asset when the asset is received and (b) accounting of disposal of the financial asset and recording the related profit and loss when the asset is delivered. The fair value changes of an asset to be acquired between the trade date and settlement date is accounted in accordance with the basis of valuation of assets.

The purchase or sale of financial assets is a transaction based on regulation or market convention that requires delivery of assets within a defined time frame. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets. Changes occurring in the fair value, cost or amortized cost are not recognized for the asset; fair value recognition in profit or loss in respect of a financial asset classified as the resulting gain or loss in profit or loss; the gain and loss arising in financial assets available for sale is recognized in equity.

The methods and assumptions used in determining the reasonable estimated values of all of the financial instruments are described below.

a. Cash, Banks and Other Financial Institutions

Cash and cash equivalents consists of cash on hand, demand deposits, and highly liquid short-term investments, not bearing risk of significant value change, and that are readily convertible to a known amount of cash. The carrying values of these assets are their fair values.

b. Marketable securities

Financial assets which are classified as "financial assets at fair value through profit or loss", are classified in two main groups; (i) Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio with a pattern of short-term profit taking. (ii) These are the financial assets that are classified as fair value difference profit/loss during the initial recognition performed by the Bank. The Bank may only use this kind of classification under allowance and in the cases which results in a better presentation of information.

Trading financial assets are initially recognized at fair value and are subsequently re-measured at their fair value in the financial statements. The fair values of the listed marketable securities are being calculated by using the stock market fair values.

The differences between the costs and fair values of financial assets at fair value through profit or loss are reflected to interest income and accruals or impairment provision. All gains and losses arising from these evaluations are recognized in the income statement. Interest earned while holding financial assets is reported as interest income and dividends received are included separately in dividend income.

In 2014, the 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 Bank was not able to classify its investment in held to maturity portfolio for two years beginning from 1 January 2015.

Available for sale assets are initially recognized at cost including the transaction costs. After initial recognition, subsequent valuation of available for sale financial assets are carried over fair value and the unrealized profit or loss arising in the changes resulting from changes in fair value and the changes between discounted value of assets is shown in "Marketable Securities Value Increase Fund" in equity. In the case that disposal of available for sale financial assets, the value gains/losses transferred to the income statement from "Marketable Securities Value Increase Fund".

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**VII. Financial Assets (Continued)****c. Loans and receivables**

Bank loans and receivables are carried initially at cost and subsequently recognized at the amortized cost value calculated using "effective interest rate method". The expenses incurred for the assets received as collateral are considered as transaction costs and are not recognized in the expense accounts.

Cash loans in personal and corporate loans, according to the Uniform Chart of Accounts ("UCA") and Prospectus are recognized in accordance with their original balances in the account specified.

The foreign exchange indexed commercial and individual loans are being monitored by the exchange rate of the opening date over Turkish Lira in the TL accounts. Repayments are calculated at the exchange rate at the date of payment, the resulting exchange differences are recognized in the income and expense account.

Starting from 24 March 2014, the Bank has hedged the fair value effects of changes in libor interest rates, fixed interest rate loan amounting TL 20,462 with 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 188 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 24 March 2019.

VIII. Impairment of Financial Assets

At each balance sheet date, the Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss or not. If any such indication exists, the Bank determines the related impairment.

A financial asset or a financial asset group incurs impairment loss only if there is an objective indicator related to the occurrence of one or more than one event ("loss event") after the first recognition of that asset; and such loss event (or events) causes, an impairment as a result of the effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of high probability the expected losses caused by the future events are not recognized.

Impairment losses attributable to the held to maturity investments are measured as the difference between the present values of expected future cash flows discounted using the original interest rate of financial asset and the carrying value of asset. The related difference is recognized as a loss and it decreases the carrying value of the financial asset. At subsequent periods, if the impairment loss amount decreases, impairment loss recognized is reversed.

When impairment occurs in the fair values of the "financial assets available for sale" of which value decreases and increases are recognized in equity, the accumulated profit/loss that had been recognized directly in equity is transferred from equity to period profit or loss. If, in a subsequent period, the fair value of the related asset increases, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Loans are classified and followed in line with the provisions of the "Regulation on Procedures And Principles For Determination Of Qualifications Of Loans And Other Receivables By Banks And Provisions To Be Set Aside", published on the Official Gazette numbered 26333 dated 1 November 2006. Within the in line with of the relevant legislation, the Bank allocated of the credit amount as provisions in accordance with mentioned the minimum provision rates in the Communiqué. Provisions released in the same year, "Provision Expense" account are credited in the past years, the remaining part of the provisions in the "Other Operating Income" account transferred to and recognized.

Except than specific allowances, the Bank provides general provision for its loans and other receivables according to above mentioned regulation.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**IX. Offsetting Financial Assets**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognized amounts and to collect/pay related financial assets and liabilities on a net basis, or there is an intention to realize the asset and settle the liability simultaneously. Otherwise, any related financial assets and liabilities are not offset.

X. Sales and Repurchase Agreements and Securities Lending Transactions

Funds obtained by the Bank from repurchase agreements ("repo") are accounted under "Funds Provided Under Repurchase Agreements" in liabilities.

The Bank's repurchase agreements are composed short-term government bonds and treasury bills. Financial assets subject to repurchase agreements, parallel to the classification of financial instruments, the fair value recognition in profit or loss, are classified as available for sale or held to maturity financial assets. Repo subjected financial assets' income recognized in interest income, while expenses paid under repurchase agreements are recognized in interest expenses.

Funds given against securities purchased under agreements to resell ("Reverse Repo") are accounted under "Receivables from Reverse Repurchase Agreements" on the balance sheet.

XI. Assets Held for Sale and Discontinued Operations

In accordance with TFRS 5 standard ("Non-current Assets Held for Sale and Discontinued Operations"), a tangible asset (or a group of assets to be disposed) classified as "asset held for resale" is measured at lower of carrying value and fair value less costs to sell. An asset (or a group of assets to be disposed) is regarded as "asset held for resale" only when the sale is highly probable and the asset (or a group of assets to be disposed) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively in the market at a price consistent with its fair value.

The Bank classified assets that were acquired due to non-performing receivables, as other assets.

A discontinued operation is a part of the Bank's business classified as sold or held-for-sale. The operating results of the discontinued operations are disclosed separately in the income statement.

The Bank has no discontinued operations.

XII. Goodwill and Other Intangible Assets

There is no goodwill in unconsolidated financial statements as of balance sheet date.

The intangible assets which are purchased before 1 January 2005 have been restated for the effects of inflation and the intangible assets after this date are presented with their purchase cost, accumulated depreciation and amortization and impairment. According to the regular amortization method, long term assets depreciate regarding to their useful lives. The amortization method and the period are reviewed in each year-end. The intangible assets are mainly consisted of software programs and rights and according to the straight line method of depreciation, they amortize in between 3 to 15 years.

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**XIII. Property and Equipment**

Property and equipment is measured at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

Properties and equipments are being depreciated by applying the straight-line method, in accordance with the Tax Procedure Law which estimates the useful lives.

The depreciation charge for items remaining in property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

If properties and equipments' value, adjusted for inflation (until 31 December 2004) is higher than the current value, exceeding amount is being allocated for impairment and determined amounts are reflected in the financial statements.

Gain or loss resulting from disposals of the property and equipment is reflected to the income statement as the difference between the net proceeds and net book value.

Expenditures for the repair and renewal of property and equipment are recognised as expense.

There are no pledges, mortgages or other restrictions on the properties and equipments.

XIV. Leasing Transactions

The Bank does perform financial operations as "Lessor".

Tangible assets acquired through finance leasing are recognized in tangible assets and the obligations under finance leases arising from the lease contracts are presented under 'Finance Lease Payables' account in the financial statements. In the determination of the related asset and liability amounts, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs on leasing agreements are expanded in lease periods at a fixed interest rate. If there is impairment in the value of the assets obtained through finance lease and in the expected future benefits, the leased assets are valued with net realizable value. Depreciation for assets obtained through finance lease is calculated in the same manner as tangible assets.

Operating lease transactions

Transactions regarding operational lease agreements are accounted as an expense on an accrual basis in accordance with the terms of the related contracts.

XV. Provisions, Contingent Commitments and Contingent Assets

Provisions and contingent liabilities except for the specific and general provisions recognized for loans and other receivables are accounted in accordance with the "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" (TAS 37).

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are determined by using the Bank Management's best expectation of expenses in fulfilling the obligation, and discounted to present value if material. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a "Contingent" liability exists and it is disclosed in the related notes to the financial statements.

XVI. Obligations Related to Employee Rights

Obligations related to employee termination and vacation rights are accounted in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19"). Under the Turkish Labor Law, the Bank is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labor Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation arising from this liability. Actuarial gains and losses are accounted for under equity.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**XVII. Taxation****a. Current tax**

In Turkey, the corporate tax rate is 20% since January 1, 2006. With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette, tax rate will applied as 22% for three years between 2018 and 2020. In addition, Council of Ministers is authorised to reduce the rate from 22% to 20%.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporate tax quarterly at a current rate on their corporate income. Advance tax is declared by the 15th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital (With the Law, No. 7061 Amendment of Certain Taxes and Laws and Other Acts promulgated in the Official Gazette, dated 5 December 2017, the exemption applied as 75% was decreased to 50% to be effective as of the promulgation of the Law for the mentioned sale of properties.) gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date. Tax returns are open for five years from the beginning of the year following the date of filing during which period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

b. Deferred tax

The Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12") and the related decrees of the BRSA concerning income taxes. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Corporate Tax Law has been amended with Article 91 of the Law, No. 7061 effective upon promulgation in the Official Gazette, No. 30261, dated 5 December 2017; and the corporate tax levied on the corporate income has been increased from 20% to 22% to be applied for the income belonging to 2018, 2019 and 2020. The Bank calculates deferred tax at the relevant rates considering the periods in which deferred tax assets and liabilities will be fulfilled. However, because of the corporate tax rate is 20% and applicable to post 2020, 20% tax rate is used for temporary differences expected / expected to be closed after 2020.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

XVIII. Additional Explanations on Borrowings

Trading and derivative financial liabilities are valued with their fair values and the other financial liabilities are carried at "amortized cost" using the "effective interest rate method" (internal rate of return).

XIX. Share Certificates and Issuance of Share Certificates

At capital increases, the Bank accounts the difference between the issued value and nominal value as "share issue premium under shareholders" in equity, in the case where the issued value is higher than the nominal value.

There is no decision of Bank for dividend distribution after the balance sheet date.

XX. Avalized Drafts and Acceptances

Guaranteed bills and acceptances shown as liabilities against assets are included in the "Off-balance sheet commitments".

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**XXI. Government Grants**

As of 31 December 2017 and 31 December 2016, the Bank has no government grants.

XXII. Profit Reserves and Profit Distribution

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below. Under the Turkish Commercial Code ("TCC") the legal reserves are composed of first and second reserves. The TCC requires first reserves to be 5% of the profit until the total reserve is equal to 20% of issued and fully paid-in share capital. Second reserves are required to be 10% of all cash profit distributions that are in excess of 5% of the issued and fully paid-in share capital. However holding companies are exempt from this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

According to the Ordinary General Assembly dated 29 March 2017, there is no profit distribution.

XXIII. Earnings Per Share

Earnings per share disclosed in the income statement are calculated by dividing net profit/(loss) for the year to the weighted average number of shares outstanding during the period concerned.

	31 December 2017	31 December 2016
Profit Attributable to Shareholders	65,963	8,804
Weighted Average Number of Issued Ordinary Shares (Thousand)	980,000	727,796
Earnings/ (Losses) Per Share (Disclosed in full TL)	0.0673	0.0121

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares "bonus shares" to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period.

No bonus shares were issued as of and for the year ended 31 December 2017 (31 December 2016: None).

XXIV. Related Parties

For the purpose of these financial statements, shareholders, key management personnel and board members together with their families and companies controlled by/affiliated with them, and associated companies are considered and referred to as related parties in accordance with "Turkish Accounting Standard for Related Parties" ("TAS 24"). The transactions with related parties are disclosed in detail in Note V. of Section Five.

XXV. Cash And Cash Equivalents

For the purposes of the cash flow statement, "Cash" includes cash, effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and "Cash equivalents" include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

XXVI. Other Explanations**Explanation on TFRS 9 Financial Instruments Standard**

2017 version of TFRS 9 standard was promulgated in the Official Gazette, numbered 29953, dated 19 January 2017 by Public Oversight, Accounting and Auditing Standards Authority ("POA") to be effective for the accounting periods starting from 1 January 2018.

TFRS 9 standard brings forward the new requirements for recognition and measurement, impairment and hedge accounting of financial assets and liabilities. Furthermore, it is stated that banks may calculate provision for financial instruments in accordance with the TFRS 9 at the "Regulation on the Classification of Loans and Provisions to be Set Aside for Those Loans" published in the Official Gazette, numbered 29750, dated 22 June 2016.

Project to comply with TFRS 9 has been continued. The Bank will recognize an adjustment to opening equity balance to reflect new requirements of classification and measurement and impairment as of 1 January 2018. Furthermore, in accordance with TFRS 9, the Bank will calculate deferred tax on the stage one and two credit losses and the effect of calculated deferred tax asset will be reflected to equity during the first transition period.

EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XXVI. Other Explanations (Continued)

Explanation on TFRS 9 Financial Instruments Standard (Continued)

Recognition and Measurement of Financial Instruments

In accordance with TFRS 9 Financial Instrument standard, recognition and measurement of financial assets are determined on the basis of the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent "solely payments of principal and interest ("SPPI")".

Upon initial recognition, each financial asset is classified as either fair value through profit or loss ("FVTPL"), amortised cost or fair value through other comprehensive income ("FVOCI"). The classification and measurement of financial liabilities remain largely unchanged under TAS 39 current requirements.

Based on the business models and contractual cash flow characteristics of the financial instruments, no significant impact is expected on the classification of financial instruments in comparison to TAS 39 current classification requirements.

Loans and receivables are held to collect contractual cash flows and such cash flows consist of principal and interest collections. The Bank analysed contractual cash flow characteristics of these financial instruments and decided to classify such instruments as financial assets valued at amortised cost. Accordingly, there is not any change in comparison to TAS 39 current classification.

Some of the financial assets measured at fair value with changes in other comprehensive income are classified as amortised cost as they meet the requirement of contractual cash flows represent SPPI depending on the characteristics of their business models.

There is no change on the classification of the financial assets valued at fair value through profit or loss.

Hedge Accounting

During the selection of the accounting policies, TFRS 9 provides option of continuing with TAS 39 hedge accounting principles and deferring hedge accounting rules in accordance with TFRS 9. Accordingly, the Bank decided to continue with TAS 39 standard for hedge accounting.

Impairment

In accordance with the "Regulation on the Classification of Loans and Provisions to be Set Aside for Those Loans" published in the Official Gazette, numbered 29750, dated 22 June 2016, the Group will begin to calculate provision for impairment of financial instruments, loans and other receivables under TFRS 9 as of 1 January 2018.

In accordance with TFRS 9, expected credit loss provision is set aside for financial asset is classified as amortised cost or fair value through other comprehensive income, financial collateral agreements and loan commitments. Expected credit loss is estimation should include objective information weighted according to possibilities and that can be supported about past events, existing conditions and predictions about future economic conditions.

The expected credit loss is determined according to a "three-stage" impairment model based on the change in the credit quality of financial assets within the scope of TFRS9 after initial recognition:

- Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. 12 month expected credit loss is recognised.
- Stage 2: In the event of significant increase in credit risk since initial recognition, the financial asset is transferred into Stage 2. Lifetime expected credit loss is recognised.
- Stage 3: Stage 3 includes financial assets that have sufficient and objective evidence of impairment at the reporting date. Lifetime expected credit loss is recognised.

In accordance with the application of TFRS 9, The Bank has calculated the transition impact of the new accounting policy by developing statistical models, calculation methods and established procedures. This change in accounting policy is expected to have a negative impact on the Bank's balance sheet equity of 25-28%. The Bank expects that this impact will be realized at a lower level with the partial offsetting impact of the capital increase disclosed in Note IX. The Bank's developments and controls related to the application of TFRS 9 are continuing.

ALTERNATİFBANK A.Ş.**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2017**

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)**XXVII. Operating Segments**

Information about operating segments which are determined in line with TFRS 8 "Turkish Accounting Standard about Operating Segments" together with organizational and internal reporting structure of the Bank, are disclosed.

- a) The Bank provides basic banking services in corporate/commercial banking and treasury.
- b) Corporate banking services consists of automatic money transfers, current accounts, deposits, open loan transactions as well as option and other derivative instruments that are used for banking operations.
- c) Investment banking services consists of trading of financial instruments and fund management.
- d) Other operations consist of subsidiaries and joint ventures, tangible assets, intangible assets, deferred tax asset and equity amounts and other income/loss accounts associated with these accounts.
- e) The Bank's software requirements, possible software updates and additional software requirements to compete with other firms are provided by the Bank.
- f) According to the table provided, share of each Bank's operating segment in the Balance sheet is as follows; corporate/retail banking 69%, investment banking 27% and other 4%.

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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EXPLANATIONS ON ACCOUNTING POLICIES (Continued)

XXVI. Operating Segments (Continued)

Major balance sheet and income statement items based on operating segments

	Corporate / Retail Banking	Investment Banking	Other	Total Operations of the Bank
31 December 2017				
Net Interest Income/ (Expense)	511,796	(24,595)	-	487,201
Net Fees and Commissions Income and Other Operating Income	123,095	-	-	123,095
Trading Profit/Loss	-	(54,296)	-	(54,296)
Dividend Income		177		177
Impairment Provision for Loans and Other Receivables (-)	(180,505)	(9,229)	-	(189,734)
Other Operating Expenses (-)	(278,868)	(6,787)	-	(285,655)
Profit Before Taxes	175,518	(94,730)	-	80,788
Tax Provision				(14,825)
Net Profit for the Period				65,963
31 December 2017				
Segment Assets	13,126,027	5,195,360	846,386	19,167,773
Investments in Associates and Subsidiaries	-	-	166,380	166,380
Total Assets	13,126,027	5,195,360	1,012,766	19,334,153
Segment Liabilities	11,290,384	3,670,198	2,755,283	17,715,865
Shareholders' Equity	-	-	1,618,288	1,618,288
Total Liabilities	11,290,384	3,670,198	4,373,571	19,334,153

	Corporate / Retail Banking	Investment Banking	Other	Total Operations of the Bank
31 December 2016				
Net Interest Income/ (Expense)	372,820	(27,284)	-	345,536
Net Fees and Commissions Income and Other Operating Income	119,506	-	-	119,506
Trading Profit/Loss	-	59,949	-	59,949
Dividend Income	-	-	-	-
Impairment Provision for Loans and Other Receivables (-)	(237,232)	(154)	-	(237,386)
Other Operating Expenses (-)	(280,409)	(5,259)	-	(285,668)
Profit Before Taxes	(25,315)	27,252	-	1,937
Tax Provision				6,867
Net Profit for the Period				8,804
31 December 2016				
Segment Assets	10,570,687	4,901,230	826,460	16,298,377
Investments in Associates and Subsidiaries	-	-	166,380	166,380
Total Assets	10,570,687	4,901,230	992,840	16,464,757
Segment Liabilities	8,908,646	3,554,474	2,776,609	15,239,729
Shareholders' Equity	-	-	1,225,028	1,225,028
Total Liabilities	8,908,646	3,554,474	4,001,637	16,464,757

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SECTION FOUR

INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK

I. Explanations on Shareholders' Equity

The standard rate of the capital adequacy of the Bank is 18.10% (31 December 2016: 18.31%).

The calculation of the standard rate of the Capital adequacy is made within framework of the "Regulation on the Measurement and Assessment of the Capital Adequacy of Banks (Regulation)", which was published in Official Gazette No.29111 dated 6 September 2014.

a. Information on Shareholder's Equity

31 December 2017

	Amount	Amounts related to treatment before 1/1/2014 (*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	980,000	
Share issue premiums	54	
Reserves	405,089	
Gains recognized in equity as per TAS	-	
Profit	75,283	
Current Period Profit	65,963	
Prior Period Profit	9,320	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	-	
Common Equity Tier 1 Capital Before Deductions	1,460,426	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS (-)	125,031	
Improvement costs for operating leasing (-)	18,115	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	32,329	40,411
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

a. Information on Shareholder's Equity (Continued)

Other items to be defined by the BRSA	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-
Total Deductions From Common Equity Tier 1 Capital	175,475
Total Common Equity Tier 1 Capital	1,284,951
ADDITIONAL TIER I CAPITAL	
Preferred Stock not Included in Common Equity and the Related Share Premiums	-
Debt instruments and premiums approved by BRSA ^(*)	282,893
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-
Additional Tier I Capital before Deductions	282,893
Deductions from Additional Tier I Capital	
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-
Other items to be defined by the BRSA (-)	-
Transition from the Core Capital to Continue to deduce Components	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	8,082
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-
Total Deductions From Additional Tier I Capital	8,082
Total Additional Tier 1 Capital	282,893
Total Tier I Capital (Tier I Capital=Common Equity Tier 1 Capital+Additional Tier I Capital)	1,559,762
TIER II CAPITAL	
Debt instruments and share issue premiums deemed suitable by the BRSA	1,308,962
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-
Debt instruments and share issue premiums deemed suitable by the BRSA	60,150
Tier II Capital Before Deductions	1,369,112
Deductions From Tier II Capital	
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	
Total Tier II Capital	1,369,112
Total Capital (The sum of Tier I Capital and Tier II Capital)	2,928,874
Deductions from Total Capital	2,928,874
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	447
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Three Years	-
Other items to be defined by the BRSA	-

ALTERNATİFBANK A.Ş.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

a. Information on Shareholder's Equity (Continued)

In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the 10% of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds		
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds		
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds		
TOTAL CAPITAL		
Total Capital (The sum of Tier I Capital and Tier II Capital)	2,928,427	2,928,427
Total risk weighted amounts	16,182,807	16,182,807
CAPITAL ADEQUACY RATIOS		
Core Capital Adequacy Ratio (%)	7.94%	7.89%
Tier 1 Capital Adequacy Ratio (%)	9.64%	9.64%
Capital Adequacy Ratio (%)	18.10%	18.10%
BUFFERS		
Bank specific total Common Equity Tier 1 Capital requirement (%)	1.26%	0.63%
Capital conservation buffer requirement (%)	1.25%	0.63%
Bank specific counter-cyclical buffer requirement (%)	0.01%	0.00%
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	3.44%	1.75%
Amounts below the Excess Limits as per the Deduction Principles		
Portion of the total of net long positions of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital		
Portion of the total of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital		
Remaining Mortgage Servicing Rights		
Amount arising from deferred tax assets based on temporary differences		
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	60,150	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	60,150	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation		
Excess amount of total provision amount to 0.6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation		
Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4		
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4		
Upper limit for Additional Tier II Capital subjected to temporary Article 4		
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4		

(*) Amounts taken in consideration during the transition period.

(**)The Bank has classified the subordinated loan obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million (TL 282,893) respectively which was previously recognized as Tier II capital in the account of additional Tier I capital. Pursuant to the resolution taken by the Board of Directors of Alternatifbank and Article 7 of the Regulation on Equity of Banks, the type of loan was changed to perpetual. As of 23 June 2017 including of the loan to account of additional Tier I capital was approved by BRSA and has been transferred to the Equity as of 31 July 2017.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

a. Information on Shareholder's Equity (Continued)

31 December 2016

	Amount	Amounts related to treatment before 1/1/2014 (*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	980,000	
Share issue premiums	54	
Reserves	405,089	
Gains recognized in equity as per TAS	-	
Profit	9,183	
Current Period Profit	8,804	
Prior Period Profit	379	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	-	
Common Equity Tier 1 Capital Before Deductions	1,394,326	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS (-)	169,298	
Improvement costs for operating leasing (-)	17,482	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	20,848	34,747
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	46,524	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

a. Information on Shareholder's Equity (Continued)

Other items to be defined by the BRSA	-
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-
Total Deductions From Common Equity Tier 1 Capital	254,152
Total Common Equity Tier 1 Capital	1,140,174
ADDITIONAL TIER I CAPITAL	
Preferred Stock not Included in Common Equity and the Related Share Premiums	-
Debt instruments and premiums approved by BRSA	-
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-
Other items to be defined by the BRSA (-)	-
Transition from the Core Capital to Continue to deduce Components	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	13,899
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-
Total Deductions From Additional Tier I Capital	13,899
Total Additional Tier I Capital	-
Total Tier I Capital (Tier I Capital=Common Equity Tier 1 Capital+Additional Tier I Capital)	1,126,275
TIER II CAPITAL	
Debt instruments and share issue premiums deemed suitable by the BRSA	1,485,208
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-
Debt instruments and share issue premiums deemed suitable by the BRSA	52,211
Tier II Capital Before Deductions	1,537,419
Deductions From Tier II Capital	
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	1,537,419
Total Capital (The sum of Tier I Capital and Tier II Capital)	2,663,694
Deductions from Total Capital	2,663,694
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	355
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	3,344
Other items to be defined by the BRSA (-)	-

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

a. Information on Shareholder's Equity (Continued)

In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the 10% of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds		
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds		
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds		
TOTAL CAPITAL		
Total Capital (The sum of Tier I Capital and Tier II Capital)	2,659,995	2,659,995
Total risk weighted amounts	14,524,534	14,524,534
CAPITAL ADEQUACY RATIOS		
Core Capital Adequacy Ratio (%)	7.85%	7.75%
Tier 1 Capital Adequacy Ratio (%)	7.75%	7.75%
Capital Adequacy Ratio (%)	18.31%	18.31%
BUFFERS		
Bank specific total Common Equity Tier 1 Capital requirement (%)	0.63%	-
Capital conservation buffer requirement (%)	0.63%	-
Bank specific counter-cyclical buffer requirement (%)	-	-
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Counter-cyclical Capital buffers to Risk Weighted Assets (%)	1.75%	-
Amounts below the Excess Limits as per the Deduction Principles		
Portion of the total of net long positions of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	-	-
Portion of the total of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	-	-
Remaining Mortgage Servicing Rights	-	-
Amount arising from deferred tax assets based on temporary differences	-	-
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	52,211	-
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	52,211	-
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Excess amount of total provision amount to 0.6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	-
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	-

(*) Amounts taken in consideration during the transition period.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

b. Details on Subordinated Liabilities

Issuer	The Commercial Bank (P.S.Q.C.)
Unique identifier (eg CUSIP, ISIN)	-
Governing law(s) of the instrument	Regulation on Equity of Banks (Published in the Official Gazette Nr. 28756 dated 5 September 2013
Regulatory treatment	
Subject to 10% deduction as of 1/1/2015	No
Eligible on Unconsolidated/ consolidated / both unconsolidated and consolidated	Valid on Consolidated and Unconsolidated Basis
Instrument type	TIER-1 Subordinated Loan
Amount recognised in regulatory capital (Currency in million TRL, as of most recent reporting date)	282,893
Par value of instrument (Million TRL)	282,893
Accounting classification	415
Original date of issuance	30.06.2015
Demand or time	Demand
Original maturity date	Demand
	-Illegality, - After 5th year, - Taxation reason and
Issuer call subject to prior supervisory approval	-Depending on regulatory as a reason BRSA has the right to refund.
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed
Coupon rate and any related index	9.85%
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	Discretionary
Existence of step up or other incentive to redeem	-
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	
If write-down, write-down trigger (s)	When unsustainable situation is realized value decrement is realized.
If write-down, full or partial	Partial or completely value decrement is should be realized.
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After claims, deposit holders, other creditors and instruments included in the calculation of supplementary capital
Whether conditions which stands in article of 7 and 8 of Banks' shareholder equity law are possessed or not	Possess
According to article 7 and 8 of Banks' shareholders equity law that are not possessed	-

ALTERNATİFBANK A.Ş.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

b. Details on Subordinated Liabilities (Continued)

Issuer	United Arab Bank, National Bank Of Oman
Unique identifier (eg CUSIP, ISIN)	-
Governing law(s) of the instrument	Regulation on Equity of Banks (Published in the Official Gazette Nr. 28756 dated 5 September 2013
Regulatory treatment	
Subject to 10% deduction as of 1/1/2015	No
Eligible on Unconsolidated/ consolidated / both unconsolidated and consolidated	Valid on Consolidated and Unconsolidated Basis
Instrument type	Secondary Subordinated Loan
Amount recognised in regulatory capital (Currency in million TRL, as of most recent reporting date)	188,595
Par value of instrument (Million TRL)	188,595
Accounting classification	347
Original date of issuance	30.06.2015
Demand or time	Time
Original maturity date	10 years +1 day -Illegality, - After 5th year, -Taxation reason and -Depending on regulatory as a reason BRSA has the right to refund.
Issuer call subject to prior supervisory approval	-
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	Libor+6
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	Mandatory
Existence of step up or other incentive to redeem	-
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	
If write-down, write-down trigger (s)	When unsustainable situation is realized, value decrement is realized.
If write-down, full or partial	Partial or completely value decrement is should be realized.
If write-down, permanent or temporary	Permanent
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Before core capital, after all creditors
Whether conditions which stands in article of 7 and 8 of Banks' shareholder equity law are possessed or not	Possess
According to article 7 and 8 of Banks' shareholders equity law that are not possessed	-

ALTERNATİFBANK A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

I. Explanations on Shareholders' Equity (Continued)

b. Details on Subordinated Liabilities (Continued)

Issuer	Alternatif Bank A.Ş.
Unique identifier (eg CUSIP, ISIN)	ISIN: XS1396282177
Governing law(s) of the instrument	Regulation on Equity of Banks (Published in the Official Gazette Nr. 28756 dated 5 September 2013)
Regulatory treatment	
Subject to 10% deduction as of 1/1/2015	No
Eligible on Unconsolidated/ consolidated / both unconsolidated and consolidated	Valid on Consolidated and Unconsolidated Basis
Instrument type	Secondary Subordinated Loan
Amount recognised in regulatory capital (Currency in million TRL, as of most recent reporting date)	1,120,367
Par value of instrument (Million TRL)	1,120,367
Accounting classification	347
Original date of issuance	15.04.2016
Demand or time	Time
Original maturity date	10 years+ 1 day -Illegality, - After 5th year, -Taxation reason and
Issuer call subject to prior supervisory approval	-Depending on regulatory as a reason BRSA has the right to refund.
Optional call date, contingent call dates and redemption amount	-
Subsequent call dates, if applicable	-
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed
Coupon rate and any related index	8.75%
Existence of a dividend stopper	-
Fully discretionary, partially discretionary or mandatory	Mandatory
Existence of step up or other incentive to redeem	-
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	
If convertible, conversion trigger (s)	-
If convertible, fully or partially	-
If convertible, conversion rate	-
If convertible, mandatory or optional conversion	-
If convertible, specify instrument type convertible into	-
If convertible, specify issuer of instrument it converts into	-
Write-down feature	
If write-down, write-down trigger (s)	-
If write-down, full or partial	-
If write-down, permanent or temporary	-
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Before core capital, after all creditors
Whether conditions which stands in article of 7 and 8 of Banks' shareholder equity law are possessed or not	Possess
According to article 7 and 8 of Banks' shareholders equity law that are not possessed	-

ALTERNATİFBANK A.Ş.**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**I. Explanations on Shareholders' Equity (Continued)****The Internal Assessment Process of Internal Capital Adequacy Regarding the Current and Future Operations**

The ultimate objective of the internal assessment process of capital requirement is to sustain considering assess the capital adequacy of the Bank in line with the risk profile and risk appetite by considering the Bank's strategies, credit growth prospects, structure of assets and liabilities, future funding sources and liquidity, and dividend distribution policy and possible fluctuations in the capital due to the economic cycle.

Within this scope, legal and internal capital requirements are assessed prospectively, along with the annual targets of the Bank, in parallel to the preparation of 3 year strategic plans. In the process of assessing internal capital requirements, the credit risk, market risk, and operational risks, in the first pillar, and the interest rate risk resulting from the Banking accounts, concentration risk, business risk, reputation risk, model risk, and exchange risk are also included.

The risks that the Bank can encounter due to its operations are being evaluated in 2016 budget works and the possible capital requirements according to The Bank's goal and strategies are evaluated.

The evaluation of legal and internal capital ratio requirements considers normal conditions as well as the stress conditions. The stress scenarios are designed after estimation of post macroeconomic variables, the effects of these variables on the loan costs and market risk factors (exchange rate, interest rates etc.). The effects of stress scenarios on capital, income, risk weighted assets and capital requirement are calculated.

Internal assessment of internal capital requirement is considered by the Bank as an improving process and further upgrades to this method is planned for the future.

II. Explanations on Currency Risk

The difference between the Bank's foreign currency denominated and foreign currency indexed on and off-balance sheet assets and liabilities is defined as the "Net Foreign Currency Position" and it is the basis of currency risk. Another important dimension of the currency risk is the change in the exchange rates of different foreign currencies in "Net Foreign Currency Position" (cross currency risk).

The Bank keeps the amount at currency risk within the legal limits and monitors the foreign currency positions daily/momentarily. Even though the Bank's determined foreign currency limit is minimal compared to the legal limit, the positions throughout the year did not exceed the limits. Term option contracts such as swap and forward are used for hedging the currency risk. Stress tests are performed to mitigate the fluctuations of the exchange rates.

The Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five days prior to that date.

	Usd	Euro
Rate used:	TL 3.7719	TL 4.5155
30 December 2017 Foreign Currency Bid Rate	TL 3.7719	TL 4.5155
29 December 2017 Foreign Currency Bid Rate	TL 3.7719	TL 4.5155
28 December 2017 Foreign Currency Bid Rate	TL 3.8104	TL 4.5478
27 December 2017 Foreign Currency Bid Rate	TL 3.8197	TL 4.5385
26 December 2017 Foreign Currency Bid Rate	TL 3.8029	TL 4.5116

The Bank's foreign currency bid rates for the reporting date and average of 30 days before the reporting day is as follows:

Usd: TL 3.8417

Euro: TL 4.5496

As of 31 December 2016;

Rate Used:	Usd	Euro
	TL 3.5192	TL 3.7099

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

II. Explanations on Currency Risk (Continued)

a. Information on currency risk of the Bank

The Bank's real foreign currency position, both in financial and economic terms, is presented in the table below:

	Euro	Usd	Yen	Other FC	Total
31 December 2017					
Assets					
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with The Central Bank of the Republic of Turkey	354,170	1,366,618	1	313,593	2,034,382
Banks	123,014	102,514	408	8,661	234,597
Financial Assets at Fair Value Through Profit and Loss (*)	340	5,840	-	141	6,321
Money Market Placements	-	-	-	-	-
Financial Assets Available-For-Sale	-	1,345,276	-	-	1,345,276
Loans (**)	4,195,367	2,680,415	-	-	6,875,782
Investments in Associates, Subsidiaries and Joint Ventures	-	-	-	-	-
Held-to-Maturity Investments	-	881,860	-	-	881,860
Hedging Derivative Financial Assets	-	-	-	-	-
Tangible Assets	-	-	-	-	-
Intangible Assets	-	-	-	-	-
Other Assets (***)	39,765	67,990	-	-	107,755
Total Assets	4,712,656	6,450,513	409	322,395	11,485,973
Liabilities					
Bank Deposits	672	77,115	-	391,406	469,193
Foreign Currency Deposits	1,388,136	4,523,783	126	49,933	5,961,978
Money Market Funds	-	594,470	-	-	594,470
Funds Borrowed From Other Financial Institutions	998,900	3,236,634	-	-	4,235,534
Marketable Securities Issued	-	954,443	-	-	954,443
Miscellaneous Payables	62,526	94,231	-	71	156,828
Derivative Financial Liabilities For Hedging Purposes	-	-	-	-	-
Other Liabilities (****)	4,291	290,091	-	159	294,541
Total Liabilities	2,454,525	9,770,767	126	441,569	12,666,987
Net Balance Sheet Position	2,258,131	(3,320,254)	283	(119,174)	(1,181,014)
Net Off-Balance Sheet Position	(2,245,612)	3,332,860	(303)	120,208	1,207,153
Financial Derivative Assets	1,318,440	5,549,766	3,373	157,168	7,028,747
Financial Derivative Liabilities	3,564,052	2,216,906	3,676	36,960	5,821,594
Non-Cash Loans (*****)	1,133,331	1,127,389	2,236	34,742	2,297,698
31 December 2016					
Total Assets	3,274,859	7,163,151	338	332,990	10,771,338
Total Liabilities	2,518,522	7,014,320	338	520,567	10,053,747
Net Balance Sheet Position	756,337	148,831	-	(187,577)	717,591
Net Off-Balance Sheet Position	(737,268)	(170,228)	4	192,604	(714,888)
Financial Derivative Assets	1,737,935	2,672,898	3,504	207,012	4,621,349
Financial Derivative Liabilities	2,475,203	2,843,126	3,500	14,408	5,336,237
Non-Cash Loans	752,380	1,135,648	19,188	587	1,907,803

(*) Accruals of derivative assets held for trading amounting to TL 4,992 (31 December 2016: TL 23,665) have been deducted from fair value through profit and loss.

(**) FC indexed loans and accruals amounting to TL 1,405,191 (31 December 2016: TL 1,092,396) are shown in loans.

(***) There are no accruals of spot transaction (31 December 2016: accruals of spot transaction amounting to TL 28 have been deducted from other assets.).

(****) Accruals of derivative liabilities held for trading amounting to TL 76,003 (31 December 2016: TL 12,126) and other provisions amounting to TL 48 (31 December 2016: TL 8) have been deducted from other liabilities. The Bank has classified the subordinated loan obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million (TL 282,893) respectively which was previously recognized as Tier II capital in the account of additional Tier I capital. Pursuant to the resolution taken by the Board of Directors of Alternatifbank and Article 7 of the Regulation on Equity of Banks, the type of loan was changed to perpetual. As of 23 June 2017 including of the loan to account of additional Tier I capital was approved by BRSA and has been transferred to the Equity as of 31 July 2017. The subordinated debt, which added to the additional Tier I capital, amounting to TL 282,893 is presented in Other Liabilities.

(*****) No effect on net off-balance sheet position.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**II. Explanations on Currency Risk (Continued)****b. Exposure to Currency Risk**

The table below represent the sensitivity Bank's 10% weakening of TL against USD, EUR and other currencies and the effects on equity and income statement (without tax effect) as of 31 December 2017 and 31 December 2016.

	31 December 2017		31 December 2016	
	Income statement	Equity	Income statement	Equity
Usd	1,261	1,261	(2,140)	(2,140)
Euro	1,252	1,252	1,907	1,907
Other FC	101	101	503	503
Total, net	2,614	2,614	270	270

The table below represent the sensitivity Bank's 10% strenghtening of TL against USD, EUR and other currencies and the effects on equity and income statement (without tax effect) as of 31 December 2017 and 31 December 2016.

	31 December 2017		31 December 2016	
	Income statement	Equity	Income statement	Equity
Usd	(1,261)	(1,261)	2,140	2,140
Euro	(1,252)	(1,252)	(1,907)	(1,907)
Other FC	(101)	(101)	(503)	(503)
Total, net	(2,614)	(2,614)	(270)	(270)

Analysis are assumed with other variables especially interest rate remain stable.

III. Explanations on Interest Rate Risk

Assets, liabilities and off-balance sheet items' interest rate sensitivity are measured.

The expected impact on the financial position and on the cash flow of the bank due to the fluctuations in the market interest rates are being followed within the framework of Asset-Liability management principles and also interest rate risk limits restricted on balance sheet by the Board of Directors. These limits also impose restriction to indirect profit centers can carry on maturity mismatches.

The Bank has not encountered to any significant interest rate risk in last period.

Average interest rates applied to monetary financial instruments reflect market rates.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

III. Explanations on Interest Rate Risk (Continued)

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items (based on re-pricing dates)

31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic Turkey							
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic Turkey	2,027,768	-	-	-	-	259,643	2,287,411
Banks	219,105	-	-	-	-	60,785	279,890
Financial Assets at Fair Value Through Profit and Loss	5,628	12,271	5,844	75,707	309	-	99,759
Money Market Placements	350,122	-	-	-	-	-	350,122
Financial Assets Available-for-Sale	-	678,162	935,379	29,633	-	4,898	1,648,072
Loans	3,076,321	1,075,423	4,071,812	4,031,539	611,090	259,842	13,126,027
Held-to-Maturity Investments	-	226,573	655,287	-	-	-	881,860
Other Assets (*)	121	170	765	510	-	659,446	661,012
Total Assets	5,679,065	1,992,599	5,669,087	4,137,389	611,399	1,244,614	19,334,153
Liabilities							
Bank Deposits (**)	373,498	116,801	-	-	-	24,711	515,010
Other Deposits	7,042,084	3,214,346	95,378	75	-	423,491	10,775,374
Money Market Funds	457,755	136,859	-	-	-	-	594,614
Miscellaneous Payables	-	-	-	-	-	252,171	252,171
Marketable Securities Issued	-	-	-	954,443	-	-	954,443
Funds Borrowed From Other Financial Institutions	1,025,729	655,664	2,555,817	7,700	-	-	4,244,910
Other Liabilities and Shareholders' Equity (***)	71,076	296,701	6,641	69,724	309	1,553,180	1,997,631
Total Liabilities	8,970,142	4,420,371	2,657,836	1,031,942	309	2,253,553	19,334,153
Balance Sheet Long Position	-	-	3,011,251	3,105,447	611,090	-	6,727,788
Balance Sheet Short Position	(3,291,077)	(2,427,772)	-	-	-	(1,008,939)	(6,727,788)
Off-Balance Sheet Long Position	-	-	4,378	-	-	-	4,378
Off-Balance Sheet Short Position	(136,824)	(4,253)	-	(1,505)	-	-	(142,582)
Total Position	(3,427,901)	(2,432,025)	3,015,629	3,103,942	611,090	(1,008,939)	(138,204)

(*) Investments in associates and subsidiaries are classified as tangible and intangible fixed assets, sundry receivables, deferred tax assets, other assets and other non-interest bearing assets.

(**) Precious metal bank account is presented under “Bank Deposits”.

(***) Tax payables, levies, charges and premiums, provisions and shareholders equity are classified as non-interest bearing other liabilities.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

III. Explanations on Interest Rate Risk (Continued)

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on (re-pricing dates) (Continued)

31 December 2016	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets							
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic Turkey	1,749,540	-	-	-	-	220,648	1,970,188
Banks	515,322	-	-	-	-	25,075	540,397
Financial Assets at Fair Value Through Profit and Loss	42,054	7,950	11,856	90	-	-	61,950
Money Market Placements	350,081	-	-	-	-	-	350,081
Financial Assets Available-for-Sale	2,033	814,083	1,475,266	-	32,592	4,721	2,328,695
Loans	2,625,700	1,180,542	3,105,751	2,746,580	699,345	212,769	10,570,687
Held-to-Maturity Investments	-	-	-	-	-	-	-
Other Assets (*)	121	170	765	1,530	-	640,173	642,759
Total Assets	5,284,851	2,002,745	4,593,638	2,748,200	731,937	1,103,386	16,464,757
Liabilities							
Bank Deposits	562,825	86,015	-	-	-	24,581	673,421
Other Deposits	5,194,047	2,201,791	491,762	277	-	347,348	8,235,225
Money Market Funds	416,096	70,298	-	-	-	-	486,394
Miscellaneous Payables	-	-	-	-	-	170,307	170,307
Marketable Securities Issued	-	-	-	889,656	-	-	889,656
Funds Borrowed From Other Financial Institutions	895,775	765,672	2,841,169	2,145	-	-	4,504,761
Other Liabilities and Shareholders' Equity (**)	28,855	32,298	7,527	31	-	1,436,282	1,504,993
Total Liabilities	7,097,598	3,156,074	3,340,458	892,109	-	1,978,518	16,464,757
Balance Sheet Long Position	-	-	1,253,180	1,856,091	731,937	-	3,841,208
Balance Sheet Short Position	(1,812,747)	(1,153,329)	-	-	-	(875,132)	(3,841,208)
Off-Balance Sheet Long Position	-	-	9,291	-	-	-	9,291
Off-Balance Sheet Short Position	(137,337)	(45,557)	-	(541)	-	-	(183,435)
Total Position	(1,950,084)	(1,198,886)	1,262,471	1,855,550	731,937	(875,132)	(174,144)

(*) Investments in associates and subsidiaries are classified as tangible and intangible fixed assets, sundry receivables, deferred tax assets, other assets and other non-interest bearing assets.

(**) Tax payables, levies, charges and premiums, provisions and shareholders equity are classified as non-interest bearing other liabilities.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

III. Explanations on Interest Rate Risk (Continued)

b. Average interest rates for monetary financial instruments

The following average interest rates have been calculated by weighting the rates with their principal amounts as of the balance sheet date.

31 December 2017	Euro	Usd	Other FC	TL
	%	%	%	%
Assets				
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	-	1.25	-	4.00
Banks	1.00	1.56	-	12.71
Financial Assets at Fair Value Through Profit and Loss	-	5.12	-	12.52
Money Market Placements	-	-	-	12.74
Financial Assets Available-for-Sale	-	6.70	-	10.29
Loans	4.69	6.52	-	16.11
Held-to-Maturity Investments	-	5.29	-	-
Liabilities				
Bank Deposits	0.25	1.45	0.10	14.21
Other Deposits	1.91	3.81	1.82	14.80
Money Market Funds	-	0.49	-	6.52
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	3.12	-	-
Funds Borrowed From Other Financial Institutions	2.09	5.30	-	6.64

31 December 2016	Euro	Usd	Other FC	TL
	%	%	%	%
Assets				
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	-	0.75	-	3.31
Banks	1.00	0.79	-	8.35
Financial Assets at Fair Value Through Profit and Loss	4.64	4.71	-	-
Money Market Placements	-	-	-	8.49
Financial Assets Available-for-Sale	-	6.48	-	8.09
Loans	4.71	5.60	-	14.34
Held-to-Maturity Investments	-	-	-	-
Liabilities				
Bank Deposits	2.42	3.00	-	9.03
Other Deposits	2.02	3.07	-	11.10
Money Market Funds	-	0.38	-	6.80
Miscellaneous Payables	-	-	-	-
Marketable Securities Issued	-	3.12	-	-
Funds Borrowed From Other Financial Institutions	2.05	5.08	-	7.52

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**III. Explanations on Interest Rate Risk (Continued)****c. Interest rate risk arising from banking accounts**

Interest rate risk resulting from banking accounts are evaluated in the framework of re-pricing risk, yield curve risk, base risk and option risk and interest rate risk resulting from banking accounts being managed with the international standards and with hedging transactions and limits the risk reduction.

The sensitivity of assets, liabilities and off-balance sheet items are evaluated in the Assets-Liabilities Committee meetings with the developments in the market. Interest rate risk assessment process arising from banking accounts will be included interest rate position that determined as banking account by the Bank. Besides this process has been created and conducted in reference to related re-pricing and maturity data.

Due to the maturity mismatch in the balance sheet, monitoring interest rate risk exposure within the scope of duration gap, maturity gap and sensitivity analysis are used. Duration gap, maturity gap and sensitivity analysis are calculated on a two week periods to the Assets-Liabilities Committee.

In the analysis, the fair values are calculated from interest sensitive assets and liabilities at fixed interest rates through cash flow, in the variable interest rates based on the re-pricing term market interest rates, using yield curves. The terms of the demand products is settled on basing of the frequency of interest rate determination and customer behavior. These results are supported periodically by the sensitivity and scenario analysis performed to assess the effect of the market fluctuations may occur.

Interest rate risk resulting from the banking accounts is measured in accordance with "Regulation No. 28034 on Measurement and Evaluation of Interest Rate Risk resulting from Banking Accounts with Standard Shock Method", dated 23 August 2011 and legal limits based on these measurements are monitored and reported on a monthly basis.

Interest rate risk related to interest-sensitive financial instruments classified in trading portfolio is assessed within the scope of the market risk.

Branches and line of businesses, being free from the market risk, the management of market risk depends on Fund Management Group Asset and Liability Management Department (ALM) is transferred by transfer pricing system and market risk management are realized by this section centrically. ALM, in the market risk management; uses balance sheet (long-term debt) and off-balance sheet (derivatives) instruments.

31 December 2017	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/ Equity-Losses/ Equity
1.TRY	+500bps	(166,041)	(5.67)%
	-400 bps	151,486	5.17%
	+200 bps	(60,272)	(2.06)%
2.EURO	-200 bps	33,565	1.15%
	+200 bps	(56,158)	(1.92)%
3.USD	-200 bps	72,014	2.46%
Total (For Negative Shocks)		257,065	8.78%
Total (For Positive Shocks)		(282,471)	(9.65)%

31 December 2016	Applied Shock (+/- x basis point)	Gains/ Losses	Gains/ Equity-Losses/ Equity
1.TRY	+500bps	(133,927)	(5.03)%
	-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%

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

IV. Explanation on Stock Position Risk

None.

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio

There is a liquidity limit approved and monitored on a weekly basis by the Bank Risk Committee. This limit is used by the Assets-Liability Management Committee for deciding to funding sources composition and pricing policy.

Maturity and interest rate mismatches impact on profitability and capital is measured using scenario analysis.

The Bank's most important source of liquidity is deposits denominated in TL and foreign exchange deposit accounts. In addition, there are also borrowing opportunities available from Borsa İstanbul repo market, Takas Bank and Interbank market.

In accordance with the "Regulation on calculation of Bank's liquidity coverage ratio", published in Official Gazette no. 28948, dated 21 March 2014, the deposit banks are subject to set 80% and 60% liquidity ratios for Total and Foreign Currency accordingly. The liquidity ratio is calculated by dividing the high quality liquid assets by net cash outflows.

1.a. Information on liquidity risk management regarding how to provide communication with the Board of Directors and lines of business for risk capacity of the Bank, liquidity risk, responsibility and structure of management, reporting of Bank's liquidity risk, liquidity risk strategy, policies and practices.

Liquidity risk management aims to take necessary measures in a timely manner and correct way with respect to potential liquidity shortage caused by cash flow mismatches of Bank's balance sheet structure and/or market conditions. It is on ground of the meeting the liquidity needs cash and disposable borrowing resources at specified level and time of held deposits and other liabilities creating liquidity. Bank monitors liquidity position both in terms of foreign currency and total liquidity basis.

According to the liquidity risk management about the liquidity position, necessary guidance to the line of businesses and pricing are performed by the Asset and Liability Management Department by taking into account the cash flow of the Bank with maturities. Liquidity risk informations are reported regularly to the such Asset and Liability Committee and Management Risk Committees. The liquidity risk parameters determined within the frame of liquidity risk parameters are monitored and reported to the business units by Risk Management consistently. The actions need to be taken in conditions such as convergence and excess of limits are decided by Asset-Liability Committee.

1.b. Information on the centralization degree of liquidity management and funding strategy and the operation between the Bank and the Bank's shareholders:

The responsibility of liquidity risk management in accordance with the risk appetite determined by the Board of Directors belongs to the Treasury Asset-Liability Management Department. Risk Management Department is responsible for determining the level of bank-wide liquidity risk and its measurement, monitoring and reporting. Liquidity management and funding strategies of Bank and its shareholders are determined by Bank's Asset and Liability Management Committees and monitored by the Treasury Department.

1.c. Information on the Bank's funding strategy including policies on diversity of fund terms and resources

For the Bank's effective, correct and sustainable liquidity risk management, it is provided to be followed by the relevant committees with the approval of Liquidity Management Policy Board. The Bank's core funding source has been targeted as a deposit. Non-deposit funding sources are used to provide a variety of core sources and maturities. These resources are mainly syndicated loans, subordinated loans and bond issuances. Despite term of deposits are determined by market conditions and generally on short term basis, it is aimed to collect the deposits of customers who have high stickiness to the Bank. Non-deposit sources also preferred because they are more long-term resources.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio (Continued)

1.d. Information on liquidity management on the basis of currencies constitute the minimum five percentage of the Bank's total liabilities

Turkish Lira, US Dollars and Euros are the currencies that constitute the minimum five per cent of the Bank's liabilities. It is intended to have effective foreign currency and liquidity risk management analysing these currencies on foreign exchange and total liquidity management basis. Liquidity gap analysis are measured and managed with the same way. Deposits and other long term sources should be preferred, performing liquidity management on currency basis, in order to avoid the increase of market risk fluctuations on foreign currency positions.

1.e. Information on current liquidity risk mitigation techniques

Liquid assets as defined under Basel III are held with the intention of liquidity risk management managing the Bank's liquidity risk. Market liquidity and maturity of liquid assets are considered as risk reduction for liquidity management. In this context, the range of liquid assets is important in the management of liquidity risk. Potential risks are minimized by avoiding concentration of liquid assets during the potential liquidity needs and the Bank's ability to fulfill its obligations.

1.f. Information on the use of stress testing

Stress tests on the basis of the liquidity risk are performed at the beginning of the each year. The test results are presented with the details of the stress test and ICAAP report annually. The Board of Directors approve the stress test results and they are shared with the BRSA during the process. In addition to these stress tests, cash flow and liquidity position analyzes are maintained according to the Bank's internal needs.

1.g. General information about the emergency and contingency liquidity plan

Information on emergency and contingency liquidity plan is detailed in the Bank "Emergency Funding Plan Policy". Definitions regarding the liquidity crisis and actions that the Bank may take against a liquidity crisis that may occur in the market are implemented the action plan outlined. The Bank's special liquidity crisis levels set out in alarm conditions and the parameters to be monitored as an indicator are detailed. Crisis Committee members and the Committee's duties and responsibilities are determined for the Bank's stress scenarios specific to the market and the Bank.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio (Continued)

2. Liquidity Coverage Ratio

The Bank's calculated liquidity coverage ratios are presented as below pursuant to "Measurement and Assesment of the Liquidity Coverage Ratios of Banks" published in the Official Gazette on 21 March 2014 and numbered 28948. The highest and lowest values of the average of last three months unconsolidated foreign currency and total liquidity coverage ratios are as follows:

	Consideration Ratio		Consideration Ratio	
	Unapplied to Total Value (*)	Applied to Total Value (*)	TL+FC	FC
31 December 2017				
HIGH QUALITY LIQUID ASSETS				
1 High Quality Liquid Assets			3,275,053	2,605,458
CASH OUTFLOWS				
2 Retail and Small Business Customers	3,464,367	1,354,863	317,070	135,486
3 Stable Deposits	587,329	-	29,366	-
4 Less Stable Deposit	2,877,038	1,354,863	287,704	135,486
5 Unsecured Wholesale Funding	6,427,664	4,617,439	3,795,505	2,493,579
6 Operational Deposits	-	-	-	-
7 Non-operational Deposits	5,300,845	3,883,297	2,668,686	1,759,437
8 Other Unsecured Fundings	1,126,819	734,142	1,126,819	734,142
9 Secured Funding			65,951	65,951
10 Other Cash Outflows	48,483	9,405	48,483	9,405
Derivative cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	48,483	9,405	48,483	9,405
11 Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	-	-	-	-
Other revocable off-balance sheet commitments and contractual obligations	3,096,106	1,714,978	676,772	254,258
Other irrevocable or conditionally revocable off-balance sheet obligations	259,613	259,613	12,981	12,981
16 TOTAL CASH OUTFLOWS			4,916,762	2,971,660
CASH INFLOWS				
17 Secured lending	231,303	-	-	-
18 Unsecured lending	2,577,431	723,715	1,938,567	626,933
19 Other cash inflows	42,934	41,780	42,934	41,780
20 TOTAL CASH INFLOWS	2,851,668	765,495	1,981,501	665,828
			Total Adjusted Value	
21 TOTAL HIGH QUALITY ASSETS STOCKS			3,275,053	2,605,458
22 TOTAL CAH OUTFLOWS			2,935,261	2,305,832
23 LIQUIDITY COVERAGE RATIO (%)			114.22%	116.86%

(*) The average of the last three months liquidity coverage ratio calculated by monthly and weekly simple averages.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio (Continued)

2. Liquidity Coverage Ratio (Continued)

	Consideration Ratio Unapplied to Total Value (*)		Consideration Ratio Applied to Total Value (*)	
	TL+FC	FC	TL+FC	FC
31 December 2016				
HIGH QUALITY LIQUID ASSETS				
1 High Quality Liquid Assets			2,229,413	1,818,505
CASH OUTFLOWS				
2 Retail and Small Business Customers	3,110,666	1,289,888	281,201	128,989
3 Stable Deposits	597,316	-	29,866	-
4 Less Stable Deposit	2,513,350	1,289,888	251,335	128,989
5 Unsecured Wholesale Funding	4,472,992	2,149,216	3,046,466	1,369,383
6 Operational Deposits	-	-	-	-
7 Non-operational Deposits	3,504,281	1,746,980	2,078,028	967,147
8 Other Unsecured Fundings	968,711	402,236	968,438	402,236
9 Secured Funding			101,710	101,710
10 Other Cash Outflows	31,321	1,524	31,321	1,524
Derivative cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	31,321	1,524	31,321	1,524
11 Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	-	-	-	-
Other revocable off-balance sheet commitments and contractual obligations	2,773,401	1,301,581	422,040	181,397
Other irrevocable or conditionally revocable off-balance sheet obligations	584,746	584,746	29,237	29,237
16 TOTAL CASH OUTFLOWS			3,911,975	1,812,240
CASH INFLOWS				
17 Secured lending	218,335	-	-	-
18 Unsecured lending	1,890,068	645,308	1,434,005	582,236
19 Other cash inflows	6,988	6,904	6,988	6,904
20 TOTAL CASH INFLOWS	2,115,391	652,212	1,440,993	589,140
			Total Adjusted Value	
21 TOTAL HIGH QUALITY ASSETS STOCKS			2,229,413	1,818,505
22 TOTAL CAH OUTFLOWS			2,470,982	1,226,085
23 LIQUIDITY COVERAGE RATIO (%)			91.45%	161.48%

(*) The average of the last three months liquidity coverage ratio calculated by monthly and weekly simple averages.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio (Continued)

3. Banks explanations as a minimum regarding the liquidity ratio:

3.a Important factors affected by the results of Liquidity Coverage Ratio and the change of the items taken into account in the ratio calculation over time.

Despite all components have significant role, bond and reverse repurchase amounts cash outflows/unsecured debts of due to banks line, cash outflows/irrevocable commitments or revocable contingent commitments of off balance sheet liabilities, cash inflows/unsecured receivables of due from financial institutions are high volatile assets. Related items have an effective role on variability of ratio.

3.b Explanations on the components of high-quality liquid assets:

High-quality assets is generated by cash balances and Central Bank and issued debt securities by those with 0% risk weightings of credit quality level risk. The changes in the reverse repo balance at the period effects high-quality asset stock value.

3.c Funding source components and the intensity of them in all funds

Basically deposits, loans and subordinated loans as unsecured debt items have the most significant portion in Bank's funding balances. As of 31 December 2017, the proportion of total liabilities to all deposits of the bank is 54% and borrowings constitutes 18% portion whereas subordinate debt is 9%. Secured borrowings such as repo transactions has lower portion (3%). In addition, as a funding item, the Bank has issued securities amounting to TL 954,443 (31 December 2016: TL 889,656).

3.d Information about the outflows arising from derivative transactions and the possible completing collateral transactions

Cash outflows arising from derivative product balances are occurred when the derivative products liabilities are higher than the receivables. As of 31 December 2017, net of derivative assets and liabilities amounting to TL 65,670. In addition, cash outflow balances are reported with calculation against the change of derivatives fair value. This calculation is performed by checking the output margin within last 24 months of the counterparty balance. The maximum value in the past 24 months is considered as cash outflow as of reporting date. In this context, according to calculations as of 31 December 2017, the liability balance is computed as TL 45,758 in case of a change in fair value of derivatives products.

3.e Counterparty and fund resources on the basis of products and concentration limits on collaterals

As of 31 December 2017, the Bank's more than 34.88% of time deposit cap arised from retail banking. The remaining time deposits are constituted from legal entities. Another significant funding resource of borrowings generated from foreign banks (99%). As of 31 December 2017, 30% of the subordinated loans which are subject to capital adequacy calculations provided from The Commercial Bank (P.S.Q.C.), United Arab Bank and National Bank of Oman. As of 31 December 2017, 18% of the subordinated loans, which shown in equity in the capital adequacy of the bank, were added in the additional Tier I capital.

3.f The liquidity risk for the potential funding needs for the bank itself, the branches in foreign countries and its consolidated partnerships with considering the operational and legal factors inhibiting the liquidity transfer

In the current position of the Bank and its consolidated subsidiaries, there are no such risks drawing attention.

3.g The information about the other cash inflows and outflows located in the liquidity leverage ratio calculation but not located in the second paragraph of disclosure template and considered as related with liquidity profile

In this context, there is no excluded cash inflow and outflow in statements on the current situation.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio (Continued)

Breakdown of assets and liabilities according to their outstanding maturities

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Year	5 Year and Over	Unclassified	Total
31 December 2017								
Assets								
Cash (Cash in Vault, Effectives, Cash in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	259,643	2,027,768	-	-	-	-	-	2,287,411
Due From Banks	60,785	219,105	-	-	-	-	-	279,890
Financial Assets at Fair Value Through Profit and Loss	-	5,628	9,947	5,375	77,724	1,085	-	99,759
Money Market Placements	-	350,122	-	-	-	-	-	350,122
Financial Assets Available-for-Sale	-	-	-	-	971,620	671,554	4,898	1,648,072
Loans	-	2,102,226	575,539	3,202,461	5,391,223	1,594,736	259,842	13,126,027
Held-to-Maturity Investments	-	-	-	-	525,362	356,498	-	881,860
Other Assets (*)	1,609	17,082	947	13,783	32,986	12,426	582,179	661,012
Total Assets	322,037	4,721,931	586,433	3,221,619	6,998,915	2,636,299	846,919	19,334,153
Liabilities								
Bank Deposits (***)	24,711	373,498	116,801	-	-	-	-	515,010
Other Deposits	423,491	7,042,084	3,214,346	95,378	75	-	-	10,775,374
Funds Borrowed From Other Financial Institutions	-	146,371	177,214	1,492,515	1,098,272	1,330,538	-	4,244,910
Money Market Funds	-	457,755	136,859	-	-	-	-	594,614
Marketable Securities Issued	-	-	-	-	954,443	-	-	954,443
Miscellaneous Payables	-	-	-	-	-	-	252,171	252,171
Other Liabilities (**)	282,893	133,933	13,808	6,332	69,724	618	1,490,323	1,997,631
Total Liabilities	731,095	8,153,641	3,659,028	1,594,225	2,122,514	1,331,156	1,742,494	19,334,153
Liquidity Gap	(409,058)	(3,431,710)	(3,072,595)	1,627,394	4,876,401	1,305,143	(895,575)	-
31 December 2016								
Total Assets	246,310	4,152,802	421,358	2,978,719	4,487,969	3,395,574	782,025	16,464,757
Total Liabilities	371,929	6,357,643	2,414,933	2,220,559	1,476,158	2,088,279	1,535,256	16,464,757
Liquidity Gap	(125,619)	(2,204,841)	(1,993,575)	758,160	3,011,811	1,307,295	(753,231)	-

(*) Assets that are necessary for banking activities and that cannot be liquidated in the short-term, such as fixed and intangible assets, stationary stocks, prepaid expenses and loans under follow-up, are classified in this column.

(**) Shareholders' equity is presented under "Other liabilities" item in the "Unclassified" column.

(***) Precious Metal bank account is presented under "Bank Deposits".

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio (Continued)

Financial liabilities according to their remaining maturities:

In accordance with TFRS 7, the maturity distribution of the Bank's non-derivative financial liabilities shown as in the table below. The allocation table shows the undiscounted cash outflows of the Bank's financial liabilities according to the nearest possible contractual maturity.

31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Total
Liabilities						
Bank Deposits	398,367	117,038	-	-	-	515,405
Other Deposits	7,488,329	3,254,012	96,620	84	-	10,839,045
Funds Borrowed From Other Financial Institutions	178,863	184,722	1,660,525	1,125,633	1,469,373	4,619,116
Money Market Funds	457,920	137,543	-	-	-	595,463
Marketable Securities Issued	-	-	-	955,924	-	955,924
Total	8,523,479	3,693,315	1,757,145	2,081,641	1,469,373	17,524,953

31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Total
Liabilities						
Bank Deposits	587,966	86,197	-	-	-	674,163
Other Deposits	5,557,324	2,223,524	498,580	340	-	8,279,768
Funds Borrowed From Other Financial Institutions	194,215	67,360	1,976,136	1,261,796	2,345,314	5,844,821
Money Market Funds	416,343	70,592	-	-	-	486,935
Marketable Securities Issued	-	-	-	891,959	-	891,959
Total	6,755,848	2,447,673	2,474,716	2,154,095	2,345,314	16,177,646

Contractual maturity analysis of the Bank's derivative instruments:

31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Total
31 December 2017						
Net Paid						
Hedging Derivative Financial Instruments	-	-	-	110,000	-	110,000
Forward Foreign Exchange Transactions	320,318	122,329	68,088	-	-	510,735
Money and Interest Rate Swaps	7,215,970	1,249,861	966,638	6,436,113	79,190	15,947,772
Options	729,685	588,491	2,510,450	27,488	-	3,856,114
Other	-	-	-	60,351	-	60,351
Total	8,265,973	1,960,681	3,545,176	6,633,952	79,190	20,484,972

31 December 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Total
31 December 2016						
Net Paid						
Hedging Derivative Financial Instruments	-	110,000	-	110,000	-	220,000
Forward Foreign Exchange Transactions	206,568	91,103	80,040	-	-	377,711
Money and Interest Rate Swaps	3,023,409	2,506,944	1,179,429	4,997,728	918,228	12,625,738
Options	127,700	554,304	2,390,833	7,740	-	3,080,577
Other	-	-	-	56,307	-	56,307
Total	3,357,677	3,262,351	3,650,302	5,171,775	918,228	16,360,333

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

V. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio (Continued)

Collaterals in terms of Risk Groups

	31 December 2017				
	Risk Groups	Amount	Financial Guarantees (*)	Other/ Physical Guarantees	Guarantees and Credit Derivatives
1	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	3,519,932	-	-	-
2	Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	2,052	2	-	-
3	Contingent and Non-Contingent Receivables from Banks and Intermediaries	2,763,619	2,255	-	-
4	Contingent and Non-Contingent Corporate Receivables	14,199,570	606,392	-	-
5	Contingent and Non-Contingent Retail Receivables	159,977	13,975	-	-
6	Contingent and Non-Contingent Receivables Secured by Residential Property	1,261,680	10,310	-	-
7	Non-Performing Receivables	260,702	3,237	-	-
8	Other Receivables	681,846	-	-	-
9	Total	22,849,378	636,171	-	-

(*) The financial guarantees are reported with deducting from the risk amounts before loan risk reduction and credit conversion.

	31 December 2016				
	Risk Groups	Amount	Financial Guarantees (*)	Other/ Physical Guarantees	Guarantees and Credit Derivatives
1	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	3,911,970	-	-	-
2	Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	1,086	-	-	-
3	Contingent and Non-Contingent Receivables from Banks and Intermediaries	2,072,344	5	-	-
4	Contingent and Non-Contingent Corporate Receivables	9,863,630	503,783	-	-
5	Contingent and Non-Contingent Retail Receivables	1,027,282	30,522	-	-
6	Contingent and Non-Contingent Receivables Secured by Residential Property	1,145,731	10,065	-	-
7	Non-Performing Receivables	212,769	360	-	-
8	Other Receivables	641,614	-	-	-
9	Total	18,876,426	544,735	-	-

(*) The financial guarantees are reported with deducting from the risk amounts before loan risk reduction and credit conversion.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VI. Explanations on Leverage Ratio

Explanations about the aspects that cause the difference between the leverage ratios of current and prior years

The Bank's unconsolidated leverage ratio is 6.25% and calculated in compliance with "Regulation on Measurement and Evaluation of Leverage Levels of Banks" (31 December 2016: 4.98%). Changes in the leverage ratio are mainly due to the increase in the Tier 1 capital. Regulation has been arrived at a decision of the minimum leverage ratio of 3%.

		31 December 2017 (*)	31 December 2016 (*)
Assets in Balance Sheet			
1	On-balance sheet items (excluding derivative financial instruments and credit derivatives but including collateral)	19,294,175	15,739,124
2	Assets deducted in determining Tier 1 capital	(57,465)	(90,915)
3	Total on-balance sheet risks (sum of lines 1 and 2) Derivative financial instruments and credit derivatives	19,236,710	15,648,209
Derivative financial instruments and credit derivatives			
4	Replacement cost associated with all derivative financial instruments and credit derivatives	362,319	117,569
5	Add-on amounts for PFE associated with all derivative financial instruments and credit derivatives	474,924	364,750
6	Total risks of derivative financial instruments and credit derivatives (sum of lines 4 to 5) Securities or commodity financing transactions (SCFT)	837,243	482,319
Securities or commodity financing transactions			
7	Risks from SCFT assets of off-balance sheet	-	-
8	Risks from brokerage activities related exposures	-	-
9	Total risks related with securities or commodity financing transactions (sum of lines 7 to 8) Other off-balance sheet transactions	-	-
Off-balance sheet transactions			
10	Gross notional amounts of off-balance sheet transactions	6,111,825	4,840,824
11	(Adjustments for conversion to credit equivalent amounts)	(1,152,418)	(591,489)
12	Total risks of off-balance sheet items (sum of lines 10 and 11) Capital and total risks	4,959,407	4,249,335
Capital and Total Risk			
13	Tier 1 capital	1,564,756	1,015,915
14	Total risks (sum of lines 3, 6, 9 and 12) Leverage ratio	25,033,360	20,379,863
15	Leverage ratio	%6.25	4.98%

(*) Amounts in the table are three-month average amounts.

INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management****a. Risk Management and General Information on Risk Weighted Amount**

Notes and explanations in this section have been prepared in accordance with the Communiqué on Disclosures about Risk Management to Be Announced to Public by Banks that have been published in Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016. According to the Communiqué these notes have to be presented on a quarterly basis. Due to usage of standard approach for the calculation of capital adequacy by the Bank, the following tables have not been presented as of 31 December 2017:

- RWA flow statements of credit risk exposures under Internal Rating Based (IRB)
- RWA flow statements of CCR exposures under the Internal Model Method (IMM)
- RWA flow statements of market risk exposures under an Internal Model Approach (IMA)

1. The Bank's risk management approach

Bank's risk management approach is defined as creating added value for shareholders, customers and employees in parallel with the Bank general business strategy by increasing the efficiency of Bank activities within the framework of risk-return relationship in accordance with the best practices and legal requirements.

The Risk Strategy and its governance are set by the Board of Directors (the Board). The Board has the ultimate responsibility for the management of all risks assumed and faced by the Bank. The Board manages risk through the Audit & Compliance; Risk; Executive Committees.

While the risk appetite at the Bank is linked to the overall risk management framework and business strategy of the Bank, the update of Risk Appetite statement approved by the Board and monitoring of the Bank's risk profile management are provided within Risk Management Department general responsibility.

Banking risks include in general credit risk, market risk, operational risk, liquidity risk, interest rate risk in banking accounts, concentration risk, country risk, strategic risk and reputation risk and Bank risk appetite is a statement of the limits of these risks.

Risk Appetite monitoring activities are reported to the Board Risk Committee and Audit Committee. In case of any Risk Appetite threshold breach occurs, it is ensured that the risk management treatment and business controls are implemented to bring the exposure levels for each metric back within an acceptable range as approved by the BOD.

Issues related to Bank's work programs and business objectives are discussed in the Board Risk Committee, and necessary acknowledgment, monitoring and approval processes are performed herein.

Practices of defining, measuring with analytical methods, analyzing, reporting risks and regularly monitoring the general risk levels in order to ensure systematical management of incurred consolidated and unconsolidated-based risks of the Bank and its affiliates are performed.

The Bank identifies, measures, assesses, monitors the risks it is exposed to by way of using internationally recognised quantitative and analytical techniques found suitable for the Bank in particular, and reports related results to the Top Management.

The Bank also monitors the compliance of credit facilities and treasury operations etc. with the Bank's risk policies, administers internal reporting and monitors the results on a regular basis.

The Bank adopts an integrated approach to stress-testing and conduct stress tests on a bank-wide basis and on a consolidated basis where applicable, providing a spectrum of perspectives at portfolio and risk-specific levels.

Stress tests are conducted for key risk factors within Market Risk, Credit Risk, Operational Risk, Structural Interest Rate Risk, Concentration Risk and Liquidity Risk areas and other risks if deemed material level and the impact of stress is measured on the Bank's solvency and liquidity.

Risk management model has 3 level protection strategy designed with the purpose of efficient management of the risks:

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

a. Risk Management and General Information on Risk Weighted Amount (Continued)

1. The Bank's risk management approach (Continued)

1. Protection Level (Risk-taking departments): All business units of the Bank which are directly responsible from controlling and reducing to minimum levels the risks resulting from the activities conducted by each one of the units as per the Bank standards and policies.
2. Protection Level (Risk Management): Risk Management Department which is responsible from developing risk management methodologies, instruments and guidances to be used in managing risks and the principal responsible of presenting such documents to the usage of related people. Risk Management Department is supported by specialized departments in terms of risk management such as Internal Control, Compliance, Legal, Human Resources, Information Technologies, and Financial Control. Furthermore, risk watching does also belong to this protection level in addition to provide assistance to determine the risk reducing actions.
3. Protection Level (Internal Audit), Responsibility of assessment for effectiveness and compliance of risk management framework and application of it in the whole organization belongs to Internal Audit.

1. Overview of Risk Weighted Amount

		Risk Weighted Amount		Minimum capital requirement
		31 December 2017	31 December 2016	31 December 2017
1	Credit risk (excluding counterparty credit risk) (CCR)	14,564,109	13,183,912	1,165,129
2	Standardised approach (SA)	14,564,109	13,183,912	1,165,129
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	694,893	343,594	55,591
	Standardised approach for counterparty credit risk (SA-CCR)	694,893	343,594	55,591
6	Internal model method (IMM)	-	-	-
7	Basic risk weight approach to internal models equity position in the banking account	-	-	-
8	Investments made in collective investment companies – look-through approach	-	-	-
9	Investments made in collective investment companies – mandate-based approach	-	-	-
10	Investments made in collective investment companies - 1250% weighted risk approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization positions in banking accounts	-	-	-
13	IRB ratings-based approach (RBA)	-	-	-
14	IRB Supervisory Formula Approach (SFA)	-	-	-
15	SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	42,800	141,975	3,424
17	Standardised approach (SA)	42,800	141,975	3,424
18	Internal model approaches (IMM)	-	-	-
19	Operational Risk	881,005	855,053	70,480
20	Basic Indicator Approach	881,005	855,053	70,480
21	Standart Approach	-	-	-
22	Advanced measurement approach	-	-	-
23	The amount of the discount threshold under the equity (subject to a 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	16,182,807	14,524,534	1,294,625

INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****b. Explanations on Credit Risk****1. General qualitative information about credit risk**

Credit risk is one of the most important risks that banks may expose and described as the potential loss that the Bank may suffer due to partial or complete failure of the credit customer in fulfilling his/her liabilities as per the credit contract entered. It is not described only as one of the most important risks of a Bank but managing the credit risk plays a critical role because of its magnitude within the balance sheet. Bank's risk policies cover the methodology and responsibilities regarding the management, control and monitor of the credit risk, and some other topics in connection with the credit risk limits.

In the parallel of Bank's general business strategy, to determine the fundamental principles and policies concerning the risks which the Bank might experience directly or indirectly due to all credits extended or to be extended by it in favor of real or legal entities resident both in Turkey and abroad and to define the risk management applications together with the authorizations and responsibilities regarding the management of these risks, credit risk management policies are created.

The purpose of credit risk management at the Bank is not to avoid risk completely but to take manageable level risks consciously, to control the risks for their duration, and to maximize the risk sensitive returns of the Bank by managing the risks that the bank may be exposed to within limits compatible with the Bank's risk carrying capacity.

The credit risk the Bank is exposed to is monitored and managed both at the portfolio level and isolated/singular levels both in and off the balance sheet. In an effort to keep the structure and quality of the credit portfolio of the Bank at a desired level, sector based, assurance, and credit volume distribution of the portfolio is analyzed on a regular basis. Using credit risk reduction techniques, Bank makes a point of over-collateralization especially with customers with low credibility.

Not being limited only by its credit products, the Bank conducts measurement and management of credit risks of all its products and activities.

All findings achieved as result of monitoring credits and credit risks are reported to the Board of Directors and the Senior Management regularly. Credit risk monitoring, in addition to evaluation of risk at transaction and company levels, also represents an approach to credit risk monitoring by parameters such as credit type, maturity, collateral, type of foreign currency, credit ratings, sector allowing the management of risk at the portfolio level.

All personnel being involved in the lending process are required to take all necessary precautions to help manage the process effectively. Bodies responsible for credit allocation, management, and monitoring and their responsibilities are summarized in Table below:

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

1. General qualitative information about credit risk (Continued)

Related Unit	Process	Responsibility
Board of Directors	Credit Allocation and Management	<ul style="list-style-type: none"> ➤ Determination of all credit allocation authorities ➤ Determination of risk appetite and risk tolerance ➤ Determination of Credit Risk Management Policy
Credit Committee		<ul style="list-style-type: none"> ➤ Credit allocation, implementation of strategies, monitoring of risks, watching non-performing loans, loan provisioning
CEO		<ul style="list-style-type: none"> ➤ Credit allocation right received from the Board.
Risk Committee	Credit Risk Management	<ul style="list-style-type: none"> ➤ Creating and submitting credit policies to the Board for approval ➤ Monitoring risks based on approved policies and strategies
Management Risk Committee		<ul style="list-style-type: none"> ➤ Creating scoring models ➤ Policy changes due to process updates to be submitted for approval ➤ Determination of risks that new products are carrying
Risk Management Department		<ul style="list-style-type: none"> ➤ Identification, measurement, reporting and managing of credit risk ➤ Development of risk-sensitive measurement systems ➤ Preparation of periodic risk reports ➤ Validation of risk measurement models
Credit Allocation Department		<ul style="list-style-type: none"> ➤ Managing credit approval processes in accordance with single obligor principle ➤ Monitoring and managing credit risks per segments ➤ Developing and implementing appropriate credit risk policies ➤ Managing credit portfolio in order to minimise loss risk
Credit Allocation, Risk Structuring and Legal Follow-up Department		<ul style="list-style-type: none"> ➤ Repayment performance of loans after the allocation ➤ Determination of early warning signals ➤ Starting legal follow-up actions within legislative period ➤ Determination of action plan for close monitoring customers ➤ Conducting of legal and administrative processes in order to close non-performing loans with lowest loss ➤ Evaluation of loans collection abilities and send corresponding action plans for approval ➤ Identification of processes for restructuring of loans and legal follow-up
ALCO	Other	<ul style="list-style-type: none"> ➤ Taking decisions in order to manage within determined limits interest, maturity, currency, liquidity risks generated by the loan portfolio
Treasury		<ul style="list-style-type: none"> ➤ Base pricing for customers with allocated credit limit
International Financial Institution		<ul style="list-style-type: none"> ➤ Allocation of limits for domestic and foreign banks ➤ Financial and qualitative analyzes of respective institutions
Internal Control	Control and Audit	<ul style="list-style-type: none"> ➤ Making the necessary controls over activities in accordance with the credit policies and procedures, reporting irregularities
Internal Audit		<ul style="list-style-type: none"> ➤ Auditing the effectiveness of the risk management and the internal control functions, compliance of credit processes to the laws, regulations and internal Bank procedures

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****b. Explanations on Credit Risk (Continued)****1. General qualitative information about credit risk (Continued)**

In the Bank's credit risk management, in addition to limits imposed by legislative regulations, Board of Directors defined maximum credit risk limits for risk groups and sectors are also used. These limits are determined so as not to create risk concentration.

Results of monitoring and control activities regarding credit risk management are shared with Senior Management and the committee members on a regular basis. Issues emerging from the reports are discussed at the committees and necessary actions are taken.

2. Credit Quality of Assets

	Gross carrying value in consolidated financial statements prepared in accordance with Turkish Accounting Standards (TAS)		Allowances/amortisation and impairments	Net values (a+b-c)
	Defaulted (a)	Non-defaulted (b)		
1 Loans	601,858	12,866,185	342,016	13,126,027
2 Debt securities	-	2,968,897	82,449	2,886,448
3 Off-balance sheet exposures	100,655	4,344,327	21,670	4,423,312
4 Toplam	702,513	20,179,409	446,135	20,435,787

3. Changes In Stock of Defaulted Loans And Debt Securities

	Amount
1 Defaulted loans and debt securities at end of the previous reporting period	638,725
2 Loans and debt securities that have defaulted since the last reporting period	312,120
3 Receivables back to non-defaulted status	-
4 Amounts written off	109,671
5 Other changes	(138,661)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	702,513

4. Qualitative requirements to be declared to public about credit risk mitigation techniques

Credit risk mitigation indicates the technique used for mitigating the credit risk amount exposed to by the Bank, and credit risk measurements are conducted in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" published in the Official Gazette no. 29511 of 23 October 2015 (legal regulation), and "Communiqué on Credit Risk Mitigation Techniques" (legal communiqué) published in the Official Gazette no. 29111 of 6 September 2014.

In this regard, the credit risk amount calculated in accordance with the legal Regulation after credit risks are mitigated for a receivable or portfolio cannot be weighed with a risk weight higher than the one applied to the credit risk amount calculated prior to credit risk mitigation.

The Bank implements one of the methods determined by legal Regulation for credit risk mitigation, and within this framework considers suitable instruments (instruments providing credit risk protection) as defined in the legal Communiqué and which can be used in credit risk mitigation.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****b. Explanations on Credit Risk (Continued)****4. Qualitative requirements to be declared to public about credit risk mitigation techniques (Continued)****Collaterals (funded instruments providing credit risk protection):**

- Cash, gold, deposit, cash equivalent securities,
- Securities issued by the Treasury of the Republic of Turkey,
- Stocks listed on Borsa İstanbul or bonds that are convertible to stocks

Guarantees (non-funded instruments providing credit risk protection):

- Guarantees provided by the Treasury of the Republic of Turkey
- Guarantees provided by regional and local governments
- Guarantees provided by international institutions with 0% risk weighted receivables
- Guarantees provided by banks

In credit risk mitigation, the consistency between the exchange rate and maturity information of the receivables and the instrument providing credit risk protection are checked, and in case of any difference, reductions given in the legal Communiqué are taken into account for calculations.

For receivables secured with real estate property mortgages, the mortgage in question is not taken as an instrument that provides credit risk protection included in credit risk mitigation, but as a security used for identifying the asset class of the related receivable. In order to use the real estate property mortgage for identifying the asset class of the related receivable, valuation of the property must be conducted by an institution accredited by BRSA or CMB, and this valuation must be renewed at least once a year if the mortgage used for security is for commercial purposes, and at least once every three years in case it is used as a residence.

5. Credit Risk Mitigation Techniques

	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
1 Loans	11,671,174	1,454,853	630,356	-	-	-	-
2 Debt securities	2,886,448	-	-	-	-	-	-
3 Total	14,557,622	1,454,853	630,356	-	-	-	-
4 Of which defaulted	322,770	16,057	5,266	-	-	-	-

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****b. Explanations on Credit Risk (Continued)****6. Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk**

To determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks", international rating firm Japan Credit Rating Agency (JCR) is started to be used as a result of rotation with 31 October 2016 instead Fitch Ratings` external risk ratings which had been used since 31 December 2012. In this context, the note set for Turkey's rating countries of long-term foreign currency, foreign currency bond issued by Treasury of the Republic of Turkey, all other foreign currency risk associated with the Republic of Turkey Central Government and assess to corresponding risk weights with limited to receivables the opposite side from foreign banks. Rating notes issued by JCR and corresponding Fitch Ratings are presented in the table below:

Japan Credit Rating Agency	Credit Quality Level
AAA to AA-	1
A+ to A-	2
BBB+ to BBB	3
BB+ to BB-	4
B+ to B-	5
CCC and lower	6

In order to ensure that the credit risk is not concentrated on the customers whose credibility is relatively low, the credits made available to the customers are classified based on the risk rating scores of the customers utilizing such credits. The amount of the credit risk which may be taken in the certain risk degrees is limited to the definite rates of the total credits. In this frame, within risk appetite, based on external ratings country risk limits and counterparty abroad financial institution risk limits are defined.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

7. Credit Risk Exposure and Credit Risk Mitigation Techniques

	Risk Classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Exposures to central governments or central banks	3,519,932	-	4,316,449	-	568,614	%13.2
2	Exposures to regional and local governments or local authorities	-	-	-	-	-	-
3	Exposures to public sector entities	-	4,313	-	2,052	2,052	%100
4	Exposures to multilateral development banks	-	-	-	-	-	-
5	Exposures to international organizations	-	-	-	-	-	-
6	Exposures to institutions	1,689,155	1,283,151	1,689,155	1,073,334	1,318,884	%47.7
7	Exposures to corporates	11,516,401	3,752,938	10,351,012	2,559,589	11,902,603	%92.2
8	Retail exposures	118,625	218,459	111,233	37,887	111,840	%75.0
9	Exposures secured by residential property	430,750	45,599	423,870	21,050	155,722	%35.0
10	Exposures secured by commercial real estate	804,011	10,028	801,309	5,537	403,424	%50.0
11	Past-due loans	260,702	-	248,740	-	245,997	%98.9
12	High risk categories by the Agency Board	-	-	-	-	-	-
13	Exposures in the form of covered bonds	-	-	-	-	-	-
14	Exposures to institutions and corporates with a short term credit assessment	-	-	-	-	-	-
15	Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-
16	Other exposures	681,846	-	681,846	-	549,866	%80.6
17	Equity share investments	-	-	-	-	-	-
18	Total	19,021,422	5,314,488	18,623,614	3,699,449	15,259,002	%68.4

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

8. Exposures by Asset Classes and Risk Weights

	Regulatory portfolio	0%	10%	20%	35% secured by real estate mortgage	50% secured by real estate mortgage	50%	75%	100%	150%	200%	Others	Total risk amount (post-CCF and CRM)
1	Exposures to central governments or central banks	3,179,221	-	-	-	-	1,137,228	-	-	-	-	-	4,316,449
2	Exposures to regional and local governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Exposures to public sector entities	-	-	-	-	-	-	-	2,052	-	-	-	2,052
4	Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	Exposures to international Organizations	-	-	-	-	-	-	-	-	-	-	-	-
6	Exposures to institutions	-	-	207,868	-	-	2,554,621	-	-	-	-	-	2,762,489
7	Exposures to corporates	-	-	524,852	-	-	1,176,232	-	11,209,517	-	-	-	12,910,601
8	Retail exposures	-	-	-	-	-	-	149,120	-	-	-	-	149,120
9	Exposures secured by residential property	-	-	-	444,920	-	-	-	-	-	-	-	444,920
10	Exposures secured by commercial real estate	-	-	-	-	806,846	-	-	-	-	-	-	806,846
11	Past-due loans	-	-	-	-	-	37,298	-	179,629	31,813	-	-	248,740
12	High risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-	-
13	Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-	-
14	Exposures to institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
15	Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-	-
16	Equity share investments	-	-	-	-	-	-	-	-	-	-	-	-
17	Other exposures	131,980	-	732,720	444,920	806,846	4,905,379	149,120	11,941,064	31,813	-	-	681,846
18	Total	3,311,201	-	732,720	444,920	806,846	4,905,379	149,120	11,941,064	31,813	-	-	22,323,063

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****b. Explanations on Credit Risk (Continued)**

The total amount of risks exposed after offsetting transactions, regardless of the effects of credit risk mitigation and the average amount for the risks separated by the different risk classes and types

The sectoral concentrations for loans are monitored closely in accordance with the Bank's loan policy. During the Management of Risk Committee meetings held every month, overall Bank's risk is monitored by analyzing sectoral concentration.

All transactions are within the limits determined by the Board of Directors and being monitored on a regular basis.

All loans are revised at least once a year according to the regulations. Following the revision performed according to the Bank's rating methodology, the credit limits are revised or additional guarantees are requested. In the same process, risk based loan loss provisions are calculated and loan pricing policies are updated according to the results. As the expected loan losses are considered as a standard cost, they are considered in the pricing process. In case of unexpected losses, economical capital values are calculated and Bank's current capital is held within the required economical capital requirements. Incomes that are reevaluated according to the risk are monitored as a performance criteria and equity sharing with the profit centers are expected to be beneficial.

Derivatives, options and other similar contracts do not have specific provisions with specific control limits and the risk arising from these contracts are limited with the Bank's global risk framework. Bank's current policy indicates that such items should be fully collateralized to eliminate possible risks.

Indemnified non-cash loans are subject to the same risk weight as outstanding loans matured but not yet paid.

Rescheduled loans are monitored like other loans within the Bank's internal rating application. Risk ratings of the borrowers are used for credit maturities.

Bank's international banking operations and loans are with the OECD countries and when the economic conditions of these operations are found to be unimportant of a part for the credit risk.

Bank is not active in international banking market.

The accumulation of the Bank's highest 100 cash loan clients is 57.11% (31 December 2016: 57.89%) of the overall cash loans.

The accumulation of the Bank's highest 100 non-cash loan clients is 71.49% (31 December 2016: 65.34%) of the overall non-cash loans.

The accumulation cash and non-cash receivables of the Bank's highest 100 loan clients are 8.62% (31 December 2016: 7.79%) of the overall balance sheet and off balance sheet items.

As of 31 December 2017, the general loan loss provision is TL 60,150 (31 December 2016: TL 52,211).

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

Risk Group	Current Period Risk Amount (*)	Average Risk Amount (**)
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	3,519,932	3,324,147
Contingent and Non-Contingent Receivables from Regional Governments or Local Authorities	-	-
Contingent and Non-Contingent Receivables from Administrative Units and Non-commercial Enterprises	2,052	1,486
Contingent and Non-Contingent Receivables from Multilateral Development Banks	-	-
Contingent and Non-Contingent Receivables from International Organizations	-	-
Contingent and Non-Contingent Receivables from Banks and Intermediaries	2,763,619	2,936,132
Contingent and Non-Contingent Corporate Receivables	14,199,570	11,796,429
Contingent and Non-Contingent Retail Receivables	159,977	281,328
Contingent and Non-Contingent Receivables Secured by Residential Property	1,261,680	1,435,026
Non-Performing Receivables	260,702	199,410
Receivables Identified as High Risk by the Board	-	-
Secured by Mortgages	-	-
Securitization Positions	-	-
Short-term Receivables from Banks, Brokerage Houses and Corporates	-	-
Investments Similar to Collective Investment Funds	-	-
Other Receivables	681,846	677,023
Total	22,849,378	20,650,981

(*) Includes the risk amounts after credit conversion.

(**) Average risk amounts are calculated by the arithmetic average of the 2017 risk amounts.

1. Information on types of loans and specific provisions:

31 December 2017	Corporate/ Commercial	SME	Consumer	Credit Cards	Total
Standard Loans	8,586,827	2,930,096	172,107	20,656	11,709,686
Loans Under Close Monitoring	987,798	161,310	7,026	365	1,156,499
Non-performing Loans	299,985	293,122	4,719	4,032	601,858
Specific Provision (-)	(165,695)	(169,243)	(3,601)	(3,477)	(342,016)
Total	9,708,915	3,215,285	180,251	21,576	13,126,027

31 December 2016	Corporate/ Commercial	SME	Consumer	Credit Cards	Total
Standard Loans	7,150,897	2,562,082	183,802	37,628	9,934,409
Loans Under Close Monitoring	188,573	219,339	14,637	960	423,509
Non-performing Loans	195,459	338,518	13,848	5,530	553,355
Specific Provision (-)	(144,254)	(184,550)	(8,344)	(3,438)	(340,586)
Total	7,390,675	2,935,389	203,943	40,680	10,570,687

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

2. Information on loans and receivables past due but not impaired:

31 December 2017	Corporate/ Commercial	SME	Consumer	Credit Cards	Total
Past due up to 30 Days	104,198	79,986	29,480	767	214,431
Past due 30-60 Days	7,940	55,067	5,267	25	68,299
Past due 60-90 Days	5,072	32,934	597	12	38,615
Total	117,210	167,987	35,344	804	321,345

31 December 2016	Corporate/ Commercial	SME	Consumer	Credit Cards	Total
Past due up to 30 Days	98,948	86,300	42,772	1,918	229,938
Past due 30-60 Days	18,345	42,944	10,209	2,638	74,136
Past due 60-90 Days	27,574	61,206	3,227	683	92,690
Total	144,867	190,450	56,208	5,239	396,764

3. Information on debt securities, treasury bills and other bills:

31 December 2017	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net)	Held to Maturity Securities (Net)	Other Bonds Net)	Total
Japan JCR's Rating BBB- (*)	6,394	1,296,856	881,860	346,318	2,531,428
Total	6,394	1,296,856	881,860	346,318	2,531,428

(*) Consists of Turkish Republic government bonds, private sector bonds and treasury bills.

31 December 2016	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net)	Held to Maturity Securities (Net)	Other Bonds Net)	Total
Japan JCR's Rating BBB- (*)	526	1,994,947	-	329,027	2,324,500
Total	526	1,994,947	-	329,027	2,324,500

(*) Consists of Turkish Republic government bonds and treasury bills.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****b. Explanations on Credit Risk (Continued)****4. Information on rating concentration:**

The credit risk is evaluated according to Bank's internal rating system. The loans rated according to probability of default, from the best rating (high standard), to the lowest rate (substandard) are presented in the below table and at the bottom of the table there is past due loans (impaired).

"High standard" category means that the debtor has a strong financial structure, "standard" category means that debtor has a good and sufficient financial structure, "substandard" category means that the debtor's financial structure under risk in the short and medium term.

	31 December 2017	31 December 2016
High Standard (A,B)	86.94%	91.05%
Standard (C)	2.10%	2.36%
Substandard (D)	6.49%	1.52%
Impaired (E)	4.47%	5.07%
Not rated	-	-

5. Fair value of collaterals (loans and advances to customers):

31 December 2017	Corporate/ Commercial	SME	Consumer	Credit Cards	Total
Loans Under Close Monitoring	154,348	1,043,198	5,461	43	1,203,050
Non-performing Loans	378,064	155,300	1,074	1,106	535,544
Total	532,412	1,198,498	6,535	1,149	1,738,594

31 December 2016	Corporate/ Commercial	SME	Consumer	Credit Cards	Total
Loans Under Close Monitoring	184,073	220,641	10,788	276	415,778
Non-performing Loans	141,558	296,528	4,077	1,796	443,959
Total	325,631	517,169	14,865	2,072	859,737

Type of collaterals	31 December 2017	31 December 2016
Real-estate mortgage	1,656,597	815,248
Vehicle pledge	23,726	3,858
Cash and cash equivalents	7,102	9,366
Other	51,169	31,265
Total	1,738,594	859,737

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

- VII. Explanations on the Risk Management (Continued)**
b. Explanations on Credit Risk (Continued)
6. Risk profile according to the geographical concentration:

	Risk Categories (*)										
	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	Contingent and Non-Contingent Receivables from Banks and Intermediaries	Contingent and Non-Contingent Corporate Receivables	Contingent and Non-Contingent Retail Receivables	Contingent and Non-Contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables Identified as High Risk by the Board	Other Receivables	Total	
31 December 2017											
Domestic	3,519,932	2,052	1,660,386	14,034,944	159,811	1,251,280	-	260,702	-	20,889,107	
EU Countries	-	-	439,435	112,049	42	10,400	-	-	-	561,926	
OECD Countries (**)	-	-	8,820	-	77	-	-	-	-	8,897	
Off-Shore Banking Regions	-	-	-	-	-	-	-	-	-	-	
USA, Canada	-	-	52,326	-	1	-	-	-	-	52,327	
Other Countries	-	-	602,652	52,577	46	-	-	-	-	655,275	
Associates, Subsidiaries and Joint – Ventures	-	-	-	-	-	-	-	-	166,380	166,380	
Unallocated Assets/Liabilities (***)	-	-	-	-	-	-	-	-	515,466	515,466	
Total	3,519,932	2,052	2,763,619	14,199,570	159,977	1,261,680	-	260,702	681,846	22,849,378	

(*) Risk categories in the Communiqué on Measurement and Assessment of Capital Adequacy of Banks.

(**) OECD countries other than EU countries, USA and Canada.

(***) Assets and liabilities are not allocated on a consistent basis.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

6. Risk profile according to the geographical concentration (continued):

	Risk Categories (*)										
	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	Contingent and Non-Contingent Receivables from Banks and Intermediaries	Contingent and Non-Contingent Receivables from Banks and	Contingent and Non-Contingent Corporate Receivables	Contingent and Non-Contingent Retail Receivables	Contingent and Non-Contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables Identified as High Risk by the Board	Other Receivables	Total
31 December 2016											
Domestic	3,911,970	1,086	979,442	9,699,406	1,027,137	1,135,331	-	212,769	-	-	16,967,141
EU Countries	-	-	293,841	74,658	45	10,400	-	-	-	-	378,944
OECD Countries (**)	-	-	17,767	-	56	-	-	-	-	-	17,823
Off-Shore Banking Regions	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	119,696	-	-	-	-	-	-	-	119,696
Other Countries	-	-	661,598	89,566	44	-	-	-	-	-	751,208
Associates, Subsidiaries and Joint – Ventures	-	-	-	-	-	-	-	-	-	166,380	166,380
Unallocated Assets/Liabilities (***)	-	-	-	-	-	-	-	-	-	475,234	475,234
Total	3,911,970	1,086	2,072,344	9,863,630	1,027,282	1,145,731	-	212,769	641,614	18,876,426	

(*) Risk categories in the Communiqué on Measurement and Assessment of Capital Adequacy of Banks.

(**) OECD countries other than EU countries, USA and Canada.

(***) Assets and liabilities are not allocated on a consistent basis.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

7. Risk profile by Sectors or Counterparties:

Sectors/Counterparties	Risk Categories (*)									TL	FC	Total
	1	2	3	4	5	6	7	8	9			
Agriculture	-	-	-	219,022	12,344	777	5,581	-	-	194,934	42,790	237,724
Farming and Stockbreeding	-	-	-	182,733	12,185	777	2,640	-	-	185,049	13,286	198,335
Forestry	-	-	-	5,357	150	-	-	-	-	5,507	-	5,507
Fishery	-	-	-	30,932	9	-	2,941	-	-	4,378	29,504	33,882
Manufacturing	-	-	-	4,373,139	20,972	116,506	83,747	-	-	1,901,739	2,692,625	4,594,364
Mining and Quarrying	-	-	-	223,790	668	9,125	11,769	-	-	203,067	42,285	245,352
Production	-	-	-	3,261,052	20,166	95,982	70,677	-	-	1,406,320	2,041,557	3,447,877
Electricity, Gas and Water	-	-	-	888,297	138	11,399	1,301	-	-	292,352	608,783	901,135
Construction	-	-	-	1,721,150	7,835	454,602	73,326	-	-	779,903	1,477,010	2,256,913
Services	-	1,330	1,877,157	7,724,336	31,851	585,349	95,107	-	-	4,324,342	5,990,788	10,315,130
Wholesale and Retail Trade	-	2	-	2,930,001	19,304	112,990	73,944	-	-	1,307,147	1,829,094	3,136,241
Hotel, Food and Beverage services	-	-	-	200,323	1,487	45,178	1,531	-	-	81,446	167,073	248,519
Transportation and Telecom	-	22	-	631,423	3,747	11,863	8,330	-	-	272,096	383,289	655,385
Financial Institutions	-	-	1,877,157	1,718,703	577	114	18	-	-	1,714,220	1,882,349	3,596,569
Real Estate and Rental Services	-	-	-	1,134,403	784	349,520	377	-	-	321,773	1,163,311	1,485,084
Self-employment Services	-	-	-	983,079	4,658	54,203	7,737	-	-	486,789	562,888	1,049,677
Educational Services	-	2	-	7,045	486	-	1	-	-	7,516	18	7,534
Health and Social Services	-	1,304	-	119,359	808	11,481	3,169	-	-	133,355	2,766	136,121
Other	3,519,932	722	886,462	161,923	86,975	104,446	2,941	-	681,846	1,933,665	3,511,582	5,445,247
TOTAL	3,519,932	2,052	2,763,619	14,199,570	159,977	1,261,680	260,702	-	681,846	9,134,583	13,714,795	22,849,378

(*) Risk categories in the Communiqué on Measurement and Assessment of Capital Adequacy of Banks.

- 1- Contingent and Non-Contingent Receivables from Central Governments or Central Banks
- 2- Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises
- 3- Contingent and Non-Contingent Receivables from Banks and Intermediaries
- 4- Contingent and Non-Contingent Corporate Receivables
- 5- Contingent and Non-Contingent Retail Receivables
- 6- Contingent and Non-Contingent Receivables Secured by Residential Property
- 7- Non-Performing Receivables
- 8- Receivables identified as high risk by the Board
- 9- Other

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

8. Analysis of maturity-bearing exposures according to remaining maturities:

Risk classifications	Term To Maturity (*)				
	1 Month	1-3 Month	3-6 Month	6-12 Month	Over 1 year
Contingent and Non-Contingent Receivables from Central Governments or Central Banks	1,509,959	-	-	-	2,009,973
Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	689	-	-	915	448
Contingent and Non-Contingent Receivables from Banks and Intermediaries	748,641	29,090	16,875	63,054	1,905,959
Contingent and Non-Contingent Corporate Receivables	2,798,407	653,307	1,192,849	2,759,683	6,795,324
Contingent and Non-Contingent Retail Receivables	35,466	10,436	9,790	20,215	84,070
Contingent and Non-Contingent Receivables Secured by Residential Property	45,215	32,837	74,262	144,011	965,355
Non-Performing Receivables	-	-	-	-	260,702
Receivables Identified as High Risk by the Board	-	-	-	-	-
Other Receivables	-	-	-	-	-
TOTAL	5,138,377	725,670	1,293,776	2,987,878	12,021,831

(*) Risk amounting to TL 681,847 is on demand and not showed in the table above.

9. Exposures by risk weights:

	Risk Weights	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	Deductions from Equity
1	Amount before Credit Risk Mitigation	3,311,201	-	742,772	452,056	5,717,248	157,898	12,436,335	31,868	-	-	447
2	Amount after Credit Risk Mitigation	3,311,201	-	732,720	444,920	5,712,225	149,120	11,941,064	31,813	-	-	447

10. Information of major sectors or type of counterparties:

	Major Sectors / Counterparties	Loans		Value Adjustments	Provisions
		Impaired Loans	Past Due Loans		
1	Agriculture	1,565	15,217	-	10,213
1.1	Farming and Stockbreeding	1,565	12,261	-	9,621
1.2	Forestry	-	-	-	-
1.3	Fishery	-	2,956	-	592
2	Manufacturing	225,540	197,317	5,703	113,625
2.1	Mining and Quarrying	14,951	20,957	-	9,188
2.2	Production	135,909	174,373	5,703	103,751
2.3	Electricity, Gas and Water	74,680	1,987	-	686
3	Construction	783,253	112,789	113,676	39,466
4	Services	134,770	243,106	74,357	148,758
4.1	Wholesale and Retail Trade	57,552	172,265	20,274	98,952
4.2	Accommodation and Dining	28,090	2,999	1,748	1,472
4.3	Transportation and Telecom	16,918	36,572	41,642	28,250
4.4	Financial Institutions	115	2,456	96	2,438
4.5	Real Estate and Rental Services	39	575	-	198
4.6	Professional Services	31,145	23,649	10,597	16,028
4.7	Educational Services	4	2	-	1
4.8	Health and Social Services	907	4,588	-	1,419
5	Other	11,371	33,429	10,054	29,954
	TOTAL	1,156,499	601,858	203,790	342,016

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

b. Explanations on Credit Risk (Continued)

11. Information related with Value Adjustments and Change in Provisions:

		Opening Balance	Charge of the Period	Provision Cancelations	Value Adjustments	Closing Balance
1	Specific Provisions	340,586	151,553	(150,123)		342,016
2	General Provisions	52,211	7,939	-	-	60,150

c. Explanations on Counterparty Credit Risk (CCR)

1. Qualitative Explanations on Counterparty Credit Risk

Main issues related to Counterparty Credit Risk management process are mentioned in the Bank's Derivatives Policy and Credit Risk policies. Counterparty credit risk for customer derivative products are internally calculated through the use of fair value method, and standard method is used for credit valuation adjustment. For such transactions, customer-based counter-trend risks are taken into account, transaction limits required by Credit Underwriting department are determined, and necessary collaterals are taken. Limit/Risk realisations are monitored by Risk Management on a daily basis; realisations are relayed to respective business units, and credits are relayed to credit underwriting teams and operation units.

2. Counterparty Credit Risk (CCR) Approach Analysis

		Replacement cost	Potential future exposure	EEPE(Effective Expected Positive Exposure)	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	Standardised Approach - CCR (for derivatives)	353,812	245,442		1.4	599,254	498,535
2	Internal Model Method (for derivative financial instruments, repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)				-	-	-
3	Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
4	Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions))					182,966	64,517
5	Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					182,966	64,517
6	Total						563,052

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****c. Explanations on Counterparty Credit Risk (CCR) (Continued)****3. Capital Requirement For Credit Valuation Adjustment (CVA)**

		EAD post-CRM	RWA
	Total portfolio value with comprehensive approach CVA capital adequacy		-
1	(i) Value at Risk component (including the 3×multiplier)		-
2	(ii) Stressed Value at Risk component (including the 3×multiplier)		-
3	Total portfolio value with simplified approach CVA adequacy	182,808	131,841
4	Total subject to the CVA capital obligation	182,808	131,841

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VII. Explanations on the Risk Management (Continued)

c. Explanations on Counterparty Credit Risk (CCR) (Continued)

4. CCR Exposures By Risk Class And Risk Weights

Risk weight/ Risk classes	0%	10%	20%	50%	75%	100%	150%	Diğer	Total credit exposure (*)
Central governments and central banks receivables	-	-	-	-	-	-	-	-	-
Local governments and municipalities receivables	-	-	-	-	-	-	-	-	-
Administrative and non commercial receivables	-	-	-	-	-	-	-	-	-
Multilateral Development Bank receivables	-	-	-	-	-	-	-	-	-
International organizations receivables	-	-	-	-	-	-	-	-	-
Banks and intermediary institutions receivables	-	-	150,960	295,284	-	-	-	-	446,244
Corporate receivables	-	-	-	-	-	511,881	-	-	511,881
Retail receivables	-	-	-	-	6,904	-	-	-	6,904
Mortgage receivables	-	-	-	-	-	-	-	-	-
Non performing receivables	-	-	-	-	-	-	-	-	-
High risk defined receivables	-	-	-	-	-	-	-	-	-
Mortgage backed securities	-	-	-	-	-	-	-	-	-
Securitisation positions	-	-	-	-	-	-	-	-	-
Short term credit rated banks and intermediary institutions receivables	-	-	-	-	-	-	-	-	-
Collective investment undertaking investments	-	-	-	-	-	-	-	-	-
Equity investments	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	150,960	295,284	6,904	511,881	-	-	965,029

(*) Total credit risk: the amount of relating to the capital adequacy calculation after applying counterparty credit risk measurement techniques

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VII. Explanations on the Risk Management (Continued)

c. Explanations on Counterparty Credit Risk (CCR)(Continued):

5. Collaterals for CCR

	Fair value of collateral received		Fair value of collateral given		Fair value of collateral received	Fair value of collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	144	340,458
Cash-foreign currency	-	-	-	-	594,470	-
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	594,614	340,458

6. Credit Derivatives

	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	-	90,526
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total Notionals	-	90,526
Fair Values	-	-
Positive fair values (asset)	-	-
Negative fair values (liability)	-	-

7. Central counterparty risks (CCR): None

d. Securitisation Explanations: None.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****c. Explanations on Market Risk****1. Explanations on Risk Management's Objectives and Policies Related to Market Risk**

Prepared with a view to establishing an outlook on market policy, Market Risk Management Policy defines the market risk factors which the Bank is exposed to, and presents the process, measurement methods and monitoring activities to be employed for managing such risks. The manual also offers an in-depth description of the Bank's current strategy on market risk.

Basically, the Bank's market risks are classified into interest rate risk, foreign exchange risk, stock price risk, option risk and commodity risk.

For the Bank's capital adequacy ratio calculations, value at market risk is calculated by using the standard method. Moreover, daily Value at Risk is also calculated and presented as part of the Daily Risk Report prepared by Market Risk Management Unit. Currently, Value at Risk is calculated by using the historical simulation method, with 1-day lock-up period, 99% confidence interval. For Value at Risk calculations, the Bank uses its market risk software.

Market risk measurement results and limit realisations are reported daily to Treasury Management, and Treasury Management is expected to act in accordance with the limits established. Measurement and realisation results are shared with the General Manager, Board Audit Committee Chairman on a daily basis, and it is ensured that Senior Management is informed about the current market risk carried by the Bank's Trading account portfolio.

The Bank's risk appetite for market risk has been aligned with the market risk limits established in accordance with Risk Appetite Policy. Risks are hereby mitigated by means of sector-based, product-based and asset type-based diversification method.

Measurement and monitoring activities related to market risk management are conducted by Market Risk Management Unit. Treasury Operations Unit captures the transactions, which are executed by Treasury Management, in the system upon checking the suitability. Market risk positions defined as per the Bank's current Risk Appetite Policy and risk realisations are shared with Treasury Management on a daily basis in the "Daily Risk Report" prepared by Market Risk Management Unit. Treasury Management is notified and necessary action plans are requested in case of limit breaches. Additionally, Market Risk realisations are submitted to Assets and Liabilities Committee for discussion.

2. Market Risk -Standard Approach

	RWA
Outright products	
1	Interest rate risk (general and specific)
2	Equity risk (general and specific)
3	Foreign exchange risk
4	Commodity risk
Options	
5	Simplified approach
6	Delta-plus method
7	Scenario approach
8	Securitisation
9	Total
	42,800

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****e. Explanations on Market Risk (Continued)**

Bank's risk management operations, which are determined by the Board of Directors, are in line with the "Regulation of Internal Bank Systems" and "Regulation of Capital Adequacy Measurement and Evaluation". In order to comply with the Regulations, the Bank's operations regarding the market risk are administrated in line with the "Regulation of Internal Bank Systems" and "Regulation of Capital Adequacy Measurement and Evaluation".

Board of Directors monitors the efficiency of risk administration systems by evaluations of the Audit Committee, Management and Early Detection of Risk Committee as well as upper management's opinions and other miscellaneous reports.

The Bank's risk policies and risk administration policies for the encountered market risk are being approved by the board of directors and reviewed on a regular basis. Market risk is measured and limited in compliance with international standards and capital requirements are calculated accordingly in addition to it is managed by hedging instruments to eliminate the risk.

The market risk of portfolios held for trading is calculated using the standard method and the value at risk ("VaR") methods. Standard method calculations are made on a monthly basis which is used for calculating the capital adequacy generally accepted three methods (variance, covariance, historical simulation, Monte Carlo). VaR calculations are performed on a daily basis using the historical simulation (EWMA) method. VaR calculations are made using the past 1 year data with 99% assurance and 1 day holding period (10 days for legal capital calculation). All positions in the trading portfolio are set a daily risk limit and nominal position limits and all these limits are monitored and reported to upper management. In addition, trading portfolio, value at risk increase and limit comply situations are reported to Active Passive Committee every two weeks and to upper management and Management and Early Detection of Risk Committee every three months. VaR model is tested on a backward basis to ensure reliability. In order to limit market risk, in addition to VaR and nominal position limits, there are stop loss limits on trading portfolio that are approved by the board of directors.

1. Information on Market Risk

	31 December 2017	31 December 2016
(I) Capital Requirement Against General Market Risk – Standard Method	759	2,618
(II) Capital Requirement Against Specific Risk – Standard Method	19	8
Capital Requirement Specific Risk Related to Securitization Positions-Standard Method	-	-
(III) Capital Requirement Against Currency Risk – Standard Method	2,646	8,732
(IV) Capital Requirement Against Commodity Risk – Standard Method	-	-
(V) Capital Requirement Against Exchange Risk – Standard Method	-	-
(VI) Capital Requirement Against Market Risk of Options – Standard Method	-	-
(VII) Capital Requirement Against Counterparty Credit Risk-Standard Method	-	-
(VIII) Capital Requirement Against Market Risks of Banks Applying Risk Measurement Models	-	-
(IX) Total Capital Requirement Against Market Risk (I+II+III+IV+V+VI)	3,424	11,358
(X) Amount Subject to Market Risk (12.5 x VIII) or (12.5 x IX)	42,800	141,975

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****e. Explanations on Market Risk (Continued)****4. Average Market Risk Table of Calculated Market Risk During the Period at Month Ends:**

	31 December 2017			31 December 2016		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest Rate Risk	2,906	6,031	778	2,417	4,250	1,325
Common Stock Risk	-	-	-	-	-	-
Currency Risk	3,205	6,600	773	4,725	8,544	1,127
Commodity Risk	-	-	-	-	-	-
Exchange Risk	-	-	-	-	-	-
Counterparty Credit Risk	-	-	-	-	-	-
Option Risk	184	398	40	123	288	13
Total Value at Risk	78,684	133,988	37,063	92,206	149,250	34,250

5. Information on Counterparty Credit Risk:

In order to calculate the counterparty credit risk the "Fair Value" method is used which is determined by (Appendix 2) of "Regulation on Measurement and Assessment of Capital Adequacy of Banks," published in 28 June 2012. In accordance with the before-mentioned method, potential credit risk value is calculated and added to the renewal costs of the agreements with positive values.

For derivative transactions, sum of revaluation costs and accumulation of potential credit risk is considered to be the risk amount. Revaluation costs are calculated by valuation of the contract with its fair value and by multiplication of contract amount with the loan conversion rate.

6. Quantitative Information on Counterparty Risk (Annualy):

	31 December 2017
Interest Rate Contracts	1,419,183
Foreign Exchange Rate Contracts	10,658,976
Commodity Contracts	-
Equity Shares Related Contracts	-
Other	-
Gross Positive Fair Values	965,029
Netting Benefits	-
Net Current Exposure Amount	965,029
Collaterals Received	-
Net Derivative Position	965,029

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VII. Explanations on the Risk Management (Continued)****f. Explanations on Operational Risk**

Amount subject to operational risk is calculated once a year with "Basic Indicator Method" in accordance with the "Regulation for Measuring and Evaluating Capital Adequacy of Banks" enforced in 31 March 2016 and updated version published in 23 October 2015 Official Gazette No.29511. As of 31 December 2017, the operational risk is calculated using the revenues of 2014, 2015 and 2016. The risk amount calculated using the "Capital Adequacy Standard Ratio" indicated in the disclosure I of the section 4 amounts to TL 881,005.

The annual gross income is calculated sum of net values of interest and non-interest income by deducting the profit/loss that is generated from available for sale and held to maturity and extraordinary income, operating expense for support services and amount collected from insurances.

1. In the case of using the basic indicator method (Annual) :

	31 December 2014	31 December 2015	31 December 2016	Total Number of Positive Year	Ratio (%)	Total
Gross Income	464,915	533,939	410,754	469,869	15	70,480
Amount Subject to Operational Risk (Total*12,5)						881,005

VIII. Explanation Regarding the Presentation of Financial Assets and Liabilities at Their Fair values**a. Financial Assets and Liabilities at their fair values:**

The fair values of held-to-maturity assets are determined based on market prices or when this price is not available, based on market prices quoted for other securities subject to the same redemption qualifications in terms of interest, maturity and other similar conditions.

The expected fair value of the demand placements and deposits represents the amount to be paid upon request. The expected fair value of the fixed rate deposits is determined by calculating the discounted cash flow using the Bank's current interest rates as of balance sheet date.

The expected fair value of loans and receivables are determined by calculating the discounted cash flows using the Bank's current interest rates for fixed interest loans. For the loans with floating interest rates, it is assumed that the book value reflects the fair value.

The expected fair value of bank placements, money market placements and bank deposits are determined by calculating the discounted cash flows using the current market interest rates of similar assets and liabilities.

The following table summarizes the carrying values and fair values of some financial assets and liabilities.

	Carrying Value		Fair Value	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial Assets	16,285,971	13,789,860	17,007,353	14,376,175
Money Market Placements	350,122	350,081	350,122	350,081
Banks	279,890	540,397	279,890	540,397
Financial Assets Available-for-Sale	1,648,072	2,328,695	1,648,072	2,328,695
Held-to-maturity Investments	881,860	-	881,860	-
Loans	13,126,027	10,570,687	13,847,409	11,157,002
Financial Liabilities	17,336,522	14,959,764	18,212,415	15,545,845
Bank Deposits	515,010	673,421	515,010	673,421
Other Deposits	10,775,374	8,235,225	11,649,784	8,819,003
Funds Borrowed From Other Financial Institutions	4,244,910	4,504,761	4,244,910	4,504,761
Marketable Securities Issued	954,443	889,656	955,926	891,959
Funds Provided Under Repurchase Agreements	594,614	486,394	594,614	486,394
Miscellaneous Payables	252,171	170,307	252,171	170,307

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)

VIII. Explanation Regarding the Presentation of Financial Assets and Liabilities at Their Fair values (Continued)

b. Fair value hierarchy:

TFRS 7 sets a hierarchy of valuation techniques according to the observability of data used in valuation techniques, which establish basis for fair value calculations.

Aforesaid fair value hierarchy is determined as follows

- a) Quoted market prices (non-adjusted) (1st level);
- b) Directly (by way of prices) or indirectly (derived from prices) data for the assets or liabilities, other than quoted prices in the 1st level (2nd level);
- c) Data not based on observable data regarding assets or liabilities (3rd level).

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles is given in the table below:

31 December 2017	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	6,394	91,733	-	98,127
Government Debt Securities	6,394	-	-	6,394
Share Certificates	-	-	-	-
Trading Derivative Financial Assets	-	91,733	-	91,733
Available for Sale Assets	1,615,397	32,675	-	1,648,072
Share Certificates	4,898	-	-	4,898
Government Debt Securities	1,296,856	-	-	1,296,856
Other Marketable Securities	313,643	32,675	-	346,318
Hedging Derivative Financial Assets	-	1,632	-	1,632
Total Assets	1,621,791	126,040	-	1,747,831
Trading Derivative Financial Liabilities	-	160,820	-	160,820
Hedging Derivative Financial Liabilities	-	-	-	-
Total Liabilities	-	160,820	-	160,820

31 December 2016	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	526	61,424	-	61,950
Government Debt Securities	526	-	-	526
Share Certificates	-	-	-	-
Trading Derivative Financial Assets	-	61,424	-	61,424
Available for Sale Assets	2,298,569	30,126	-	2,328,695
Share Certificates	4,721	-	-	4,721
Government Debt Securities	1,994,947	-	-	1,994,947
Other Marketable Securities	298,901	30,126	-	329,027
Hedging Derivative Financial Assets	-	57,201	-	57,201
Total Assets	2,299,095	148,751	-	2,447,846
Trading Derivative Financial Liabilities	-	68,012	-	68,012
Hedging Derivative Financial Liabilities	-	404	-	404
Total Liabilities	-	68,416	-	68,416

There are no transfers between the 1st and 2nd rank in the current year.

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INFORMATION ON THE FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (Continued)**VIII. Explanation on Hedge Accounting**

The Bank uses "Fair Value Hedge Accounting" from the beginning of 24 March 2014 as of balance sheet date.

Derivative financial instruments is used as hedging instruments are interest swap transactions.

	31 December 2017		
	Principal (*)	Asset	Liability
Derivative Financial Instruments			
Interest Swap Transactions	110,000	1,632	-
Total	110,000	1,632	-

(*) Total of purchase and sale notional amounts.

The fair valuation methodology of the derivatives presented in the above table is disclosed in the accounting principles section of these financial statements in Section III. Note IV.

Starting from 24 March 2014, the Bank has hedged the fair value effects of changes in libor interest rates, fixed interest rate loan amounting TL 20,462 with 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 188 resulting from the changes in the fair values of the loans that are subject to fair value hedge accounting will be amortized until 24 March 2019.

The following table summarizes the effects of Fair Value Hedge Accounting.

Hedging Instrument	Hedged item (assets and liabilities)	Hedged risks	Fair value difference/ adjustment of the hedged item	Net fair value of hedging instrument	
				Asset	Liability
Interest swap transactions	Fixed rate equal installments paid commercial installment loans	Fixed interest rate risk	(1,339)	1,632	-

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/Losses on derivative financial instruments" account. In the balance sheet, 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 / losses on derivative financial instruments" account.

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SECTION FIVE

EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS

I. Explanations and Notes on Assets

a. Information on cash and balances with the Central Bank of Republic of Turkey ("CBRT")

1. Information on cash and the account of the CBRT

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Cash/Foreign Currency	20,965	73,998	30,131	71,916
CBRT	232,064	1,960,384	119,209	1,748,932
Other	-	-	-	-
Total	253,029	2,034,382	149,340	1,820,848

2. Information on the account of the CBRT

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Demand Unrestricted Amount (*)	165,699	445,723	119,209	362,532
Time Restricted Amount	66,365	-	-	-
Reserve Requirement	-	1,514,661	-	1,386,400
Total	232,064	1,960,384	119,209	1,748,932

(*) The reserve requirement hold as average has been classified under "Central Bank Demand Unrestricted Account" pursuant to the correspondence with BRSA as of 3 January 2008.

3. Information on reserve requirements

The banks which are established in Turkey or operates in Turkey through opening a branch shall be subjected to T.C. Central Bank's No. 2005/1 Regulation Required Reserves. The amount includes the amount that is going to be found with deducting the items that stated in the Communiqué from the banks total domestic liabilities and branches abroad on behalf of the deposits accepted from Turkey liabilities subject to reserve requirements.

The required reserves may keep in reserve in Central Bank of Turkey as Turkish Lira, USD and/or Euro and standard gold. As of 31 December 2017, the Turkish lira required reserve ratios are determined to be within the range of 4% - 10.5% depending on the maturity structure of deposits denominated in Turkish Lira (31 December 2016: 4%-10.5% for all Turkish lira liabilities), and the required reserve ratios for foreign currency deposits within the range of 8% - 12% (31 December 2016: 9%-13% for all foreign currency deposits) and other foreign currency liabilities within the range of 4%-24% (31 December 2016: 5%-25% for all foreign currency liabilities).

CBRT started to pay interest for the Turkish Lira reserve since 5 November 2014. CBRT also started to pay interest for the Foreign Currency reserve since 5 May 2015.

b. Information about financial assets at fair value through profit or loss

1. As of 31 December 2017, the Bank have no financial assets at fair value through profit/loss subject to repo transactions (31 December 2016: None) and have no financial assets at fair value through profit and loss given as collateral/blocked amount (31 December 2016: None).

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

- I. Explanations and Notes on Assets (Continued)**
- b. Information about financial assets at fair value through profit and loss (Continued)**
- 2. Positive differences related to trading derivative financial assets

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Forward Transactions	2,267	640	134	3,413
Swap Transactions	78,571	4,351	26,489	20,252
Options	835	5,069	50	11,086
Total	81,673	10,060	26,673	34,751

- c. Information on banks**

- 1. Information on banks

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Banks				
Domestic	45,293	162,837	120,814	396,812
Foreign	-	71,760	-	22,771
Total	45,293	234,597	120,814	419,583

- 2. Information on foreign banks:

	Unrestricted Amount		Restricted Amount	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
EU Countries	40,362	14,351	-	-
USD, Canada	28,588	7,846	-	-
OECD Countries (*)	2,691	455	-	-
Off-Shore Banking Region	-	-	-	-
Other	119	119	-	-
Total	71,760	22,771	-	-

(*) OECD countries other than the EU countries, USA and Canada.

- d. Information on available-for-sale financial asset**

- 1. Characteristics and carrying values of available-for-sale financial assets given as collateral

As of 31 December 2017, there are available-for-sale financial assets amounting TL 24,611 given as collateral/blocked (31 December 2016: TL 507,730) and those subject to repurchase agreements amounts to TL 550,825 (31 December 2016: TL 578,986). As of 31 December 2017, except the available-for-sale financial assets given as collateral/blocked and those subject to repurchase agreements, there are unrestricted amount is TL 1,067,737 (31 December 2016: TL 1,237,258). As of 31 December 2017, the share certificates amounted to TL 4,898 (31 December 2016: TL 4,721).

- 2. Information on available-for-sale financial assets

	31 December 2017	31 December 2016
Debt Securities	1,718,706	2,536,301
Quoted on Stock Exchange	1,363,938	2,188,096
Not Quoted	354,768	348,205
Share Certificates	4,898	4,721
Quoted on Stock Exchange	1	1
Not Quoted (*)	4,897	4,720
Impairment Provision (-)	75,533	212,327
Total	1,648,072	2,328,695

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

e. Explanations on loans

1. Information on all types of loan or advance balances given to shareholders and employees of the Bank

	31 December 2017		31 December 2016	
	Cash	Non-cash	Cash	Non-cash
Direct Loans Granted To Shareholders	-	249,646	-	80,452
Corporate Shareholders	-	249,646	-	80,452
Real Person Shareholders	-	-	-	-
Indirect Loans Granted To Shareholders	113,277	2,870	18,795	-
Loans Granted To Employees	6,852	-	6,654	-
Total	120,129	252,516	25,449	80,452

2. Information on the first and second group loans and other receivables including loans that have been restructured or rescheduled and other receivables

	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring		
	Loans and Other Receivables	Amendments on Conditions of Contract	Loans and Other Receivables		Amendments on Conditions of Contract
			Amendments Related to the Extention of Payment Plan	Other	Amendments Related to the Extention of Payment Plan
Non-Specialized Loans	11,704,440	5,246	-	952,709	203,790
Loans Given to Enterprises	-	-	-	-	-
Export Loans	1,018,297	5,000	-	154	5,144
Import Loans	-	-	-	-	-
Loans Given to Financial Sector	1,424,858	-	-	-	115
Consumer Loans	172,107	-	-	6,094	932
Credit Cards	20,656	-	-	365	-
Other	9,068,522	246	-	946,096	197,599
Specialized Loans	-	-	-	-	-
Other Receivables	-	-	-	-	-
Total	11,704,440	5,246	-	952,709	203,790

Number of Amendments Related to the Extention of Payment Plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
1 or 2 Times	91	191,252
3,4 or 5 Times	144	12,538
Over 5 Times	5,011	-

Time Extended Via the Amendment on Payment Plan	Standard Loans and Other Receivables	Loans and Other Receivables Under Close Monitoring
0 – 6 Month	-	190,476
6 Month – 12 Month	29	-
1 – 2 Years	5,017	776
2 – 5 Years	200	12,538
5 Years and Over	-	-

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**I. Explanations and Notes on Assets (Continued)****e. Explanations on loans (Continued)**

3. Loans according to their maturity structure

	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
Short-term Loans and Other Receivables	4,671,302	246	67,152	6,523
Non-specialised Loans	4,662,107	246	67,101	6,523
Specialised Loans	9,195	-	51	-
Other Receivables	-	-	-	-
Medium and Long-Term Loans and Other Receivables	7,033,138	5,000	885,557	197,267
Non-specialised Loans	7,028,882	5,000	885,439	197,267
Specialised Loans	4,256	-	118	-
Other Receivables	-	-	-	-
Total	11,704,440	5,246	952,709	203,790

ALTERNATİFBANK A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

e. Explanations on loans (Continued)

4. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards

	Short-term	Medium and Long-term	Total
Consumer Loans-TL	3,560	164,823	168,383
Real Estate Loans	-	105,002	105,002
Automotive Loans	-	649	649
Consumer Loans	3,560	59,172	62,732
Other	-	-	-
Consumer Loans-FC Indexed	-	-	-
Real Estate Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Real Estate Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	6,775	-	6,775
With Installments	1,715	-	1,715
Without Installments	5,060	-	5,060
Individual Credit Cards- FC	6	-	6
With Installments	-	-	-
Without Installments	6	-	6
Personnel Loans-TL	295	4,482	4,777
Real Estate Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	295	4,482	4,777
Other	-	-	-
Personnel Loans-FC Indexed	-	-	-
Real Estate Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Real Estate Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	1,907	-	1,907
With Installments	605	-	605
Without Installments	1,302	-	1,302
Personnel Credit Cards-FC	-	-	-
With Installments	-	-	-
Without Installments	-	-	-
Credit Deposit Account-TL (Individuals) (*)	5,973	-	5,973
Credit Deposit Account-FC (Individuals)	-	-	-
Total	18,516	169,305	187,821

(*) TL 169 of the credit deposit account personnel loans (31 December 2016: TL 146).

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets Assets (Continued)

e. Explanations on loans (Continued)

5. Information on commercial installment loans and corporate credit cards

	Short-term	Medium and long-term	Total
Commercial Installments Loans-TL	54,877	1,971,414	2,026,291
Real Estate Loans	-	488	488
Automotive Loans	-	74,103	74,103
Consumer Loans	54,877	1,896,823	1,951,700
Other	-	-	-
Commercial Installments Loans-FC Indexed	10,031	598,722	608,753
Real Estate Loans	-	531,365	531,365
Automotive Loans	-	61,549	61,549
Consumer Loans	10,031	5,808	15,839
Other	-	-	-
Commercial Installments Loans-FC	3,973	1,343,000	1,346,973
Real Estate Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	3,973	1,343,000	1,346,973
Other	-	-	-
Corporate Credit Cards-TL	12,333	-	12,333
With Installment	1,922	-	1,922
Without Installment	10,411	-	10,411
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Credit Deposit Account-TL (Legal Person)	52,501	-	52,501
Credit Deposit Account-FC (Legal Person)	-	-	-
Total	133,715	3,913,136	4,046,851

6. Loans according to types of borrowers

	31 December 2017	31 December 2016
Public	21,846	24,084
Private	12,844,339	10,333,834
Total	12,866,185	10,357,918

7. Distribution of domestic and foreign loans:

Related loans are classified according to the location of the customers

	31 December 2017	31 December 2016
Domestic Loans	12,759,938	10,189,181
Foreign Loans	106,247	168,737
Total	12,866,185	10,357,918

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

e. Explanations on loans (Continued)

8. Loans given to investments in associates and subsidiaries

As of 31 December 2017, there are loans granted to associates and subsidiaries amount to TL 161,369 (31 December 2016: TL 102,576).

9. Specific provisions provided against loans

	31 December 2017	31 December 2016
Loans and Other Receivables with Limited Collectability	19,311	8,368
Loans and Other Receivables with Doubtful Collectability	24,252	40,842
Uncollectible Loans and Other Receivables	298,453	291,376
Total	342,016	340,586

10. Information on non-performing loans (Net)

10.(i). Information on non-performing loans restructured or rescheduled and other receivables

The Bank has no non-performing loans restructured or rescheduled and other receivables as of 31 December 2017 (31 December 2016: None).

10.(ii). Information on the movement of total non-performing loans

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
31 December 2016	70,802	118,366	364,187
Addition (+)	271,833	4,315	7,096
Transfers from Other Categories of Non-performing Loans (+)	-	188,802	202,661
Transfers to Other Categories of Non-performing Loans (-)	(188,802)	(202,661)	-
Collections (-)	(16,290)	(39,005)	(69,775)
Write-offs (-) (*)	-	-	(109,671)
Corporate and Commercial Loans	-	-	(103,108)
Consumer Loans	-	-	(4,819)
Credit Cards	-	-	(1,744)
31 December 2017	137,543	69,817	394,498
Specific Provision (-)	(19,311)	(24,252)	(298,453)
Net Balance on Balance Sheet	118,232	45,565	96,045

(*) The 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 27 April 2017 for TL 2,099.

The Bank has removed non-performing loans of TL 4,923 from its assets on 1 June 2017 and 31 July 2017, due to the protocols which made with the creditors and in accordance with the decisions of the Board of Directors.

ALTERNATİFBANK A.Ş.**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2017**

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**I. Explanations and Notes on Assets (Continued)****e. Explanations on loans (Continued)**

10. Information on non-performing loans (Net) (Continued)

10.(iii). Information on non-performing loans granted as foreign currency loans

As at the balance sheet date there are no non-performing loans denominated in foreign currencies (31 December 2016: None).

10.(iv). Information on non-performing loans based on types of borrowers

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
31 December 2017 (Net)			
Loans to Real Persons and Legal Entities (Gross)	137,543	69,817	394,498
Specific Provision Amount (-)	(19,311)	(24,252)	(298,453)
Loans to Real Persons and Legal Entities (Net)	118,232	45,565	96,045
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Other Loans and Receivables (Net)	-	-	-
31 December 2016 (Net)			
Loans to Real Persons and Legal Entities (Gross)	70,802	118,366	364,187
Specific Provision Amount (-)	(8,368)	(40,842)	(291,376)
Loans to Real Persons and Legal Entities (Net)	62,434	77,524	72,811
Banks (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	-	-	-
Specific Provision Amount (-)	-	-	-
Other Loans and Receivables (Net)	-	-	-

11. Explanation on liquidation policy for uncollectible loan and receivable

Collection of uncollectible loans and other receivables is collected through the liquidation of collaterals and by legal procedures.

12. Explanations on write-off policy

Uncollectible loans and other receivables are recovered through legal proceedings and liquidation of collaterals or they are written off with Board decision in accordance with the Tax Procedural Law.

The 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 27 April 2017 for TL 2,099.

The Bank has removed non-performing loans of TL 4,923 from its assets on 1 June 2017 and 31 July 2017, due to the protocols which made with the creditors and in accordance with the decisions of the Board of Directors.

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

13. The Bank's provision movement for loans and other receivables during the period:

	Corporate/ Commercial Loans	SME	Consumer Loans	Total
1 January 2017	145,758	184,550	10,278	340,586
Made during the period	68,778	77,506	3,869	150,153
Cancelled during the period (-)	(16,202)	(25,294)	(1,834)	(43,330)
Collections	(32,639)	(67,518)	(5,236)	(105,393)
31 December 2017	165,695	169,244	7,077	342,016

	Corporate/ Commercial Loans	SME	Consumer Loans	Total
1 January 2016	120,921	118,688	15,519	255,128
Made During the Period	62,483	136,923	5,544	204,950
Cancelled During the Period (-)	(15,875)	(2,054)	(661)	(18,590)
Collections	(21,771)	(69,007)	(10,124)	(100,902)
31 December 2016	145,758	184,550	10,278	340,586

f. Information on held-to-maturity investments

1. Information on held to maturity debt securities

Group has held to maturity debt securities amounting to TL 881,860 as of 31 December 2017 (31 December 2016: None).

	31 December 2017	31 December 2016
Government Bonds	881,860	-
Treasury Bills	-	-
Other Government Debt Securities	-	-
Total	881,860	-

The Bank has reclassified the government debt with the nominal value of TL 878,853 from the Available-for-Sale Financial Assets portfolio to the Held-to-Maturity investments portfolio in first quarter of 2017.

2. Information on held to maturity investments

Group has held to maturity investments amounting to TL 881,860 as of 31 December 2017 (31 December 2016: None).

	31 December 2017	31 December 2016
Debt Securities	888,493	-
Quoted to Stock Exchange	888,493	-
Not Quoted to Stock Exchange	-	-
Impairment Provision (-)	(6,633)	-
Total	881,860	-

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**I. Explanations and Notes on Assets (Continued)****f. Information on held-to-maturity investments (Continued)**

3. Movement of investments held-to-maturity:

Group has investment held to maturity amounting to TL 881,860 as of 31 December 2017 (31 December 2016: None).

	31 December 2017	31 December 2016
Balance at the Beginning of the Period	-	-
Foreign Currency Differences on Monetary Assets	-	-
Transfers from Investment Securities Available for Sale	888,493	-
Disposals Through Sales and Redemptions	-	-
Impairment Provision (-)	6,633	-
Balance at the End of the Period	881,860	-

4. Characteristics and carrying values of held-to-maturity investments given as collateral

As of 31 December 2017 there is held-to-maturity investment given as collateral amounting to TL 881,860 (31 December 2016: None).

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Given as collateral/blocked	-	525,363	-	-
Subject to repurchase agreements	-	181,985	-	-
Other	-	174,512	-	-
Total	-	881,860	-	-

g. Information on investments in associates (Net)

The Bank has no investments in associates as of 31 December 2017 (31 December 2016: None).

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

h. Information on subsidiaries (Net)

1. Information on shareholders' equity of the significant subsidiaries

There is no deficit of regulatory limits on capital structure of the subsidiaries which are included in the consolidated capital adequacy ratio calculation in accordance with the capital adequacy ratio limits. The information on the shareholders' equity of these subsidiaries is shown below:

	Alternatif Finansal Kiralama A.Ş.	Alternatif Menkul Değerler A.Ş.
Core Capital	170,144	20,179
Paid-in Capital	50,000	13,309
Share Premium	-	-
Share Cancellation Profits	-	-
Reserves	54,073	14,220
Current Period's Profit and Prior Period's Profit	67,284	1,209
Current Period's Losses and Prior Period's Losses	-	(8,546)
Leasehold Improvements on Operational Leases (-)	-	-
Intangible Assets (-)	1,213	13
Supplementary Capital	-	-
Deductions From Capital	-	-
Total Shareholders Equity	170,144	20,179

2. Information on subsidiaries

No	Title	Address (City/ Country)	Bank's share percentage, if different voting percentage (%)	Bank's Risk Group Share (%)
1	Alternatif Menkul Değerler A.Ş.	İstanbul/Türkiye	100.00	100.00
2	Alternatif Finansal Kiralama A.Ş.	İstanbul/Türkiye	99.99	99.99

Main financial figures of the consolidated subsidiaries in the order of the above table

No	Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit / Loss	Prior Period Profit / Loss	Fair value
1 (*)	76,090	20,545	186	11,381	-	1,209	(8,546)	-
2 (*)	1,702,276	157,277	2,058	115,759	-	21,747	45,537	-

(*) The above mentioned subsidiaries' financial data are taken from the financial statements prepared for the BRSA as of 31 December 2017.

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

h. Information on subsidiaries (Net) (Continued)

3. The movement of the subsidiaries

	31 December 2017	31 December 2016
Balance at the Beginning of the Period	166,380	166,380
Movements During the Period		
Purchases	-	-
Transfers	-	-
Bonus Shares Obtained	-	-
Share in Current Year Income	-	-
Sales	-	-
Revaluation (Decrease) / Increase	-	-
Provision for Impairment	-	-
Balance at the End of the Period	166,380	166,380
Capital Commitments		
Share Percentage at the End of the Period (%)	100	100

4. Sectoral information on financial subsidiaries and the related carrying amounts

Subsidiaries	31 December 2017	31 December 2016
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	142,165	142,165
Finance Companies	-	-
Other Financial Subsidiaries	24,215	24,215

5. Subsidiaries quoted on stock exchange

There are no subsidiaries quoted on stock exchange (31 December 2016: None).

i. Information on joint ventures

There are no joint ventures (31 December 2016: None).

j. Information on lease receivables (net)

There are no receivables from lease transactions (31 December 2016: None).

k. Information on hedging derivative financial assets

There are differences related with hedging derivative financial assets amounting to TL 1,632 (31 December 2016: None).

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Fair Value Hedge	1,632	-	-	-
Cash Flow Hedge	-	-	-	-
Net Investment Hedge in a foreign operation	-	-	-	-
Total	1,632			

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

I. Information on property and equipment (Net)

31 December 2017	Motor Vehicles	Other Tangible Assets	Total
Cost	28	104,116	104,144
Accumulated Depreciation (-)	28	68,202	68,230
Net Book Value	-	35,914	35,914
31 December 2017			
Net Book Value at Beginning of the Period	-	35,914	35,914
Additions	-	12,953	12,953
Disposals (-), (net)	-	5,361	5,361
Disposals Depreciation (-)	-	5,101	5,101
Depreciation (-)	-	11,114	11,114
Cost at Period End	28	111,402	111,430
Accumulated Depreciation at Period End (-)	28	73,909	73,937
Closing Net Book Value at Period End	-	37,493	37,493

31 December 2016	Motor Vehicles	Other Tangible Assets	Total
Cost	28	95,137	95,165
Accumulated Depreciation (-)	28	67,322	67,350
Net Book Value	-	27,815	27,815
31 December 2016			
Net Book Value at Beginning of the Period	-	27,815	27,815
Additions	-	18,323	18,323
Disposals (-), (net)	-	7,615	7,615
Disposals Depreciation (-)	-	-	-
Depreciation (-)	-	8,495	8,495
Cost at Period End	28	104,116	104,144
Accumulated Depreciation at Period End (-)	28	68,202	68,230
Closing Net Book Value at Period End	-	35,914	35,914

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Explanations and Notes on Assets (Continued)

m. Information on the intangible assets

1. Gross carrying value and accumulated depreciation at the beginning and at the end of the period

	31 December 2017	31 December 2016
Gross Carrying Value	93,853	80,860
Accumulated Depreciation (-)	53,442	46,113
Net Carrying Value	40,411	34,747

2. Information on movements between the beginning and end of the period

	31 December 2017	31 December 2016
Beginning of the Period	34,747	30,632
Internally Generated Amounts	-	-
Additions due to Mergers, Transfers and Acquisitions	12,993	9,464
Disposals	-	-
Amount Accounted under Revaluation Reserve	-	-
Impairment	-	-
Impairment Reversal	-	-
Amortisation (-)	7,329	5,349
Net Foreign Currency Difference From Foreign Investments in Associates	-	-
Other Changes in Book Value	-	-
End of the Period	40,411	34,747

n. Information on investment property

There is no investment property (31 December 2016: None).

o. Movement of assets held for resale and discontinued operations

There is no assets held for sale and discontinued operations (31 December 2016: None).

p. Information on other assets

1. The distribution of other assets:

	31 December 2017	31 December 2016
Assets Held for Sale	152,218	95,663
Colleterals Given for Derivative Transactions	107,288	125,834
Prepaid Expenses	58,788	35,824
Pos Receivables	39,738	43,201
Receivables from Clearing	13,540	31,874
Colleterals Given	362	247
Other	12,959	26,551
Total	384,893	359,194

2. Other assets in the balance sheet, balance sheet excluding off-balance sheet commitments exceed 10% of the total while at least 20% of their name and the amount of sub-accounts:

None (31 December 2016: None).

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and Notes on Liabilities

a. Information on deposits

1. Information on maturity structure of deposits/the funds collected

1.(i). 31 December 2017:

	Demand	With 7 days notifications	Up to 1 month	1-3 months	3-6 months	6 months -1 year	1 year and over	Accumulated Deposits	Total
Saving Deposits	50,679	-	99,581	2,425,096	9,900	157	832	283	2,586,528
Foreign Currency Deposits	262,428	-	414,855	4,712,887	392,411	163,417	8,700	-	5,954,698
Residents in Turkey	239,554	-	403,562	4,627,597	390,065	22,612	8,683	-	5,692,073
Residents Abroad	22,874	-	11,293	85,290	2,346	140,805	17	-	262,625
Public Sector Deposits	7,939	-	-	-	-	-	-	-	7,939
Commercial Deposits	98,420	-	350,464	1,677,788	273	3,652	14	-	2,130,611
Other Institutions Deposits	1,614	-	2,349	56,232	-	-	28,123	-	88,318
Precious Metal Deposits	2,411	-	-	1,130	38	1,527	2,174	-	7,280
Bank Deposits	24,711	-	91,518	398,781	-	-	-	-	515,010
The CBRT	-	-	65,720	-	-	-	-	-	65,720
Domestic Banks	1,816	-	12,217	-	-	-	-	-	14,033
Foreign Banks	22,835	-	13,581	398,781	-	-	-	-	435,197
Participation Banks	60	-	-	-	-	-	-	-	60
Other	-	-	-	-	-	-	-	-	-
Total	448,202	-	958,767	9,271,914	402,622	168,753	39,843	283	11,290,384

1.(ii). 31 December 2016:

	Demand	With 7 days notifications	Up to 1 month	1-3 months	3-6 months	6 months -1 year	1 year and over	Accumulated Deposits	Total
Saving Deposits	52,408	-	172,606	1,574,267	11,590	4,335	2,250	213	1,817,669
Foreign Currency Deposits	195,689	-	303,633	2,581,798	471,686	33,902	15,933	-	3,602,641
Residents in Turkey	180,503	-	297,636	2,557,000	471,686	30,614	15,925	-	3,553,364
Residents Abroad	15,186	-	5,997	24,798	-	3,288	8	-	49,277
Public Sector Deposits	5,768	-	-	-	-	-	-	-	5,768
Commercial Deposits	89,737	-	636,365	1,851,049	113,124	18,350	8,439	-	2,717,064
Other Institutions Deposits	1,576	-	7,730	56,691	773	-	19,556	-	86,326
Precious Metal Deposits	2,170	-	83	2,159	176	269	900	-	5,757
Bank Deposits	24,581	-	137,909	318,016	-	-	192,915	-	673,421
The CBRT	-	-	-	-	-	-	-	-	-
Domestic Banks	392	-	127,239	-	-	-	-	-	127,631
Foreign Banks	23,600	-	10,670	318,016	-	-	192,915	-	545,201
Participation Banks	589	-	-	-	-	-	-	-	589
Other	-	-	-	-	-	-	-	-	-
Total	371,929	-	1,258,326	6,383,980	597,349	56,856	239,993	213	8,908,646

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and Notes on Liabilities (Continued)

a. Information on deposits (Continued)

2. Information on saving deposits insurance

2.(i). Information on saving deposits under the guarantee of the saving deposits insurance fund and exceeding the limit of deposit insurance fund

	Under the Guarantee of Deposit Insurance		Exceeding Limit of the Deposit Insurance	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Saving Deposits				
Saving Deposits (*)	505,285	491,538	2,081,314	1,326,678
Foreign Currency Savings Deposit	118,299	98,266	1,011,708	989,867
Other Deposits in the Form of Savings Deposits	-	-	-	-
Foreign Branches' Deposits Under Foreign Authorities' Insurance	-	-	-	-
Off-shore Banking Regions' Deposits Under Foreign Authorities' Insurance	-	-	-	-

(*) Related savings deposits includes the amount of TL 71 straight rediscount - internal efficiency difference (31 December 2016: TL 547).

2.(ii). Saving deposits which are not under the guarantee of saving deposit insurance fund

	31 December 2017	31 December 2016
Deposits and Other Accounts in Foreign Branches	-	-
Deposits and Other Accounts of Main Shareholders and their Families	-	-
Deposits and Other Accounts of President of Board of Directors, Members of Board of Directors, Vice General Managers and Their Families	15,207	5,188
Deposits and Other Accounts of Property Assets Value due to Crime Which is in the Scope of Article 282 of Numbered 5237 "TCL" Dated 26/9/2004	-	-
Deposits in Banks Incorporated in Turkey Exclusively for Off-shore Banking Operations	-	-

b. Information on trading derivative financial liabilities

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Forward Transactions	650	1,580	778	714
Swap Transactions	76,739	74,424	48,495	11,412
Futures Transactions	-	-	-	-
Options	607	6,820	14	6,599
Other	-	-	-	-
Total	77,996	82,824	49,287	18,725

c. Information on borrowings

1. Information on borrowings

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
The CBRT Borrowings	-	-	-	-
From Domestic Banks and Institutions	9,376	94,886	11,925	90,163
From Foreign Banks, Institutions and Funds	-	2,810,502	198	2,897,782
Total	9,376	2,905,388	12,123	2,987,945

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and Notes on Liabilities (Continued)

c. Information on borrowings (Continued)

2. Information on maturity profile of borrowings

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Short-term	8,864	334,402	12,123	517,646
Medium and Long-term	512	2,570,986	-	2,470,299
Total	9,376	2,905,388	12,123	2,987,945

d. Information on other liabilities

As of 31 December 2017, other foreign liabilities do not exceed 10% of the total balance sheet.

e. Information on financial lease agreements

None (31 December 2016: None).

f. Information on hedging derivative financial liabilities

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Fair Value Hedge Risk (*)	-	-	404	-
Cash Flow Hedge	-	-	-	-
Hedge of Net Investments in Foreign Operations	-	-	-	-
Total	-	-	404	-

(*) Explained in Section Four Note VIII.

g. Information on provisions

1. Information on general provisions

	31 December 2017	31 December 2016
Provisions for Group I Loans and Receivables	32,703	33,909
Provisions for Group II Loans and Receivables	11,189	4,279
Provisions for Non-Cash Loans	10,060	7,896
Other	6,198	6,127
Total	60,150	52,211

2. Information on reserve for employment termination benefits

In accordance with Turkish Labour Law, the reserve has been calculated by estimating the present value of the future probable obligation of the Bank arising from the retirement of its employees. According the TAS 19, actuarial valuation methods are required to calculate the company's liabilities.

Actuarial gains and losses net of deferred tax amounting to TL 663 is accounted for under the equity according to the revised TAS 19 standard as of 31 December 2017 (31 December 2016: TL 1,711 loss).

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and Notes on Liabilities (Continued)

g. Information on provisions (Continued)

2. Information on reserve for employment termination benefits (Continued)

Following actuarial assumptions were used in the calculation of total liabilities.

	31 December 2017	31 December 2016
Discount Rate (%)	4.72	4.72
Ratio Used for Probability of Pension (%)	83.33	83.33

The principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation.

Movement of employment termination benefits liability in the balance sheet

	31 December 2017	31 December 2016
Prior Period Ending Balance	7,018	5,841
Current Period Service Cost	851	594
Interest Cost	771	581
Paid Compensation	(2,872)	(5,171)
Pay/Benefit Reductions/Gains or Losses Due to Dismissals	1,095	3,034
Actuarial Gain/(Loss)	829	2,139
Balance at the End of the Period	7,692	7,018

In addition, the Bank has accounted retirement pay provision amounting to TL 7,692 (31 December 2016: 7,018) and for unused vacation rights provision amounting to TL 2,333 as of 31 December 2017 (31 December 2016: TL 2,310).

3. Other provisions

	31 December 2017	31 December 2016
Specific Provision for Unindemnified Non-cash Loan	21,671	26,335
Bonus Provision	12,217	10,000
Provision for Litigation and Claims	12,154	13,150
Provision for Miscellaneous Receivables	899	-
Provision for the Impairment due Settlement Date	48	8
Total	46,989	49,493

4. Information on Provisions Related with the Foreign Currency Difference of Foreign Indexed Loans

As of 31 December 2017, the provision related to the foreign currency difference of foreign currency indexed loans amounts to TL 5,984 (31 December 2016: TL 16,433) are netted with loans in the financial statements.

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and Notes on Liabilities (Continued)

h. Information on taxes payable

Information on current tax liability

As of 31 December 2017, current tax liability is amountinh to TL 11,952 (31 December 2016: None).

(i) Information on taxes payable

	31 December 2017	31 December 2016
Corporate Tax Payable	11,952	-
Taxation of Marketable Securities	9,809	8,258
Property Tax	178	179
Banking Insurance Transaction Tax (BITT)	6,799	5,474
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	350	337
Other	2,544	2,960
Total	31,632	17,208

(ii) Information on premium payables

	31 December 2017	31 December 2016
Social Security Premiums - Employee	1,900	1,683
Social Security Premiums - Employer	2,918	2,464
Bank Pension Fund Premiums - Employee	-	-
Bank Pension Fund Premiums - Employer	-	-
Pension Fund Deposit and Provisions - Employee	-	-
Pension Fund Deposit and Provisions - Employer	-	-
Unemployment Insurance - Employee	136	120
Unemployment Insurance - Employer	271	240
Other	223	68
Total	5,448	4,575

i. Explanations about deferred tax provision

As of 31 December 2017, the Bank has deferred tax asset amounting to TL 31,835 (31 December 2016: TL 46,524 defered tax asset) in the financial statements.

As of 31 December 2017 and 31 December 2016, the details of temporary differences and deferred tax assets and liabilities are presented below:

	31 December 2017	31 December 2016
Deferred Tax Assets		
Tangible Assets Base Differences	(1,551)	(1,241)
Provisions	7,065	4,496
Valuation of Financial Assets	24,053	39,221
Commission Deferral	5,647	4,048
Other	(3,379)	-
Net Deferred Tax Assets	31,835	46,524

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. Explanations and Notes on Liabilities (Continued)

j. Information on subordinated loans

1. Detailed explanation on subordinated loans including quantity, maturity, interest rate, issuing institution, option to be converted into stock certificate

Issuing Institution	Amount ('000)	Opening Date	Maturity	Interest Rate (%)
United Arab Bank, National Bank of Oman	USD 50,000	30 June 2015	10 years+1 day	Libor + 6.00
Foreign Capital Market Investors	USD 300,000	15 April 2016	10 years+1 day	8.75

TL equivalent of the subordinated loan is TL 1,330,146 (31 December 2016: TL 1,504,693).

The subordinated loan does not have the option to be converted into stock certificate. The Bank has the option to pay back the loan at the end of the fifth year.

2. Information on subordinated loan

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Domestic Banks	-	-	-	-
Other Domestic	-	-	-	-
Foreign Banks	-	1,330,146	-	1,504,693
Other Foreign Institutions	-	-	-	-
Total	-	1,330,146	-	1,504,693

k. Information on shareholders' equity

1. Presentation of paid-in capital (As of nominal; non-adjusted amounts according to inflation)

	31 December 2017	31 December 2016
Common Stock (*)	980,000	980,000
Preferred Stock	-	-

(*) It refers to the nominal capital.

2. Paid-in capital amount, explanation as to whether the registered share capital system is applied and if so, amount of registered share capital ceiling (As of nominal; non-adjusted amounts according to inflation):

The Bank applies registered share capital system. The Bank's registered capital is TL 2,500,000,000 (Two billion five hundred million Turkish Liras) and all are divided into 2,500,000,000 shares in the name of the holder with a nominal value of TL 1,00 (one Turkish Lira).

3. Information about the share capital increases and their sources in the current period.

None.

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**II. Explanations and Notes on Liabilities (Continued)****k. Information on shareholders' equity (Continued)**

4. Information on additions from revaluation reserves to capital in the current period : None.
5. Information on capital commitments up until the end of the fiscal year and the subsequent interim period : None.
6. Information on prior period's indicators on the Bank's income, profitability and liquidity, and possible effects of these future assumptions on the Bank's equity due to uncertainties of these indicators:

The interest, liquidity, and foreign exchange risk on on-balance sheet and off-balance sheet assets and liabilities are managed by the Bank within several risk limits and legal limits.

7. There is no privileges given to shares representing the capital
8. Information on marketable securities valuation reserve

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
From Investments in Associates, Subsidiaries, and Joint Ventures	-	-	-	-
Valuation Difference	(77,893)	(31,232)	(15,303)	(150,809)
Foreign Currency Difference	-	-	-	-
Total	(77,893)	(31,232)	(15,303)	(150,809)

9. Information on other capital reserves

The Bank has classified the subordinated loan obtained from its controlling shareholder The Commercial Bank (P.S.Q.C.) amounting to USD 75 million (TL 282,893) respectively which was previously recognized as Tier II capital in the account of additional Tier I capital. Pursuant to the resolution taken by the Board of Directors of Alternatifbank and Article 7 of the Regulation on Equity of Banks, the type of loan was changed to perpetual. As of 23 June 2017 including of the loan to account of additional Tier I capital was approved by BRSA and has been transferred to the Equity as of 31 July 2017. The accumulated interest of the related subordinated loan at the date of transfer to the Equity is TL 11,920 and transferred to the Other Capital Reserves. Other Capital Reserves include the actuarial loss amount, which transferred to the current account, amounting to TL 663.

10. Information of the previous year profit distribution

According to the Ordinary General Assembly dated 29 March 2017, there is no profit distribution.

III. Explanations and Notes on Off-Balance Sheet Accounts**a. Information on off balance sheet commitments**

1. The amount and type of irrevocable commitments

According to Direct Debiting System, there is TL 152,365 irrevocable loan commitments as of 31 December 2017 (31 December 2016: TL 191,311).

2. Type and amount of probable losses and obligations arising from off-balance sheet items

There are no probable losses and obligations arising from off-balance sheet items. Obligations arising from off-balance sheet are disclosed in "Off-Balance Sheet Commitments".

- 2.(i). Non-cash loans including guarantees, bank avalized and acceptance loans, collaterals that are accepted as financial guarantees and other letters of credit

	31 December 2017	31 December 2016
Guarantees and Collaterals	2,829	591,883
Bank Acceptance Loans	9,564	3,885
Letter of Credits	810,967	268,437
Total	823,360	864,205

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations and Notes on Off-Balance Sheet Accounts (Continued)

a. Information on off balance sheet commitments (Continued)

2.(ii). Guarantees, sureties and other similar guarantees

	31 December 2017	31 December 2016
Temporary Letter of Guarantees	110,383	48,342
Definite Letter of Guarantees	2,516,561	1,712,135
Advance Letter of Guarantee	408,531	218,345
Letter of Guarantees Given to Customs	84,288	107,565
Total	3,119,763	2,086,387

3.(i). Total amount of non-cash loans

	31 December 2017	31 December 2016
Non-cash Loans Given Against Cash Loans	986,326	441,797
With Original Maturity of 1 Year or Less than 1 Year	986,326	441,797
With Original Maturity of More than 1 Year	-	-
Other Non-cash Loans	2,956,797	2,508,795
Total	3,943,123	2,950,592

3.(ii). Information on concentration of non-cash loans

	31 December 2017				31 December 2016			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	5,329	0.32	11,780	0.51	5,158	0.49	2,643	0.14
Farming and Livestock	4,998	0.30	7,942	0.35	4,507	0.43	352	0.02
Forestry	281	0.02	-	-	301	0.03	-	-
Fishing	50	0.00	3,838	0.17	350	0.03	2,291	0.12
Manufacturing	154,665	9.40	872,324	37.97	183,252	17.57	654,585	34.31
Mining	6,718	0.41	8,834	0.38	5,793	0.56	6,551	0.34
Production	122,432	7.44	792,478	34.49	141,514	13.57	580,926	30.45
Electric, Gas, Water	25,515	1.55	71,012	3.09	35,945	3.45	67,108	3.52
Construction	234,941	14.28	270,861	11.79	207,562	19.90	304,657	15.97
Services	1,217,570	74.00	1,139,997	49.61	622,004	59.65	943,357	49.45
Wholesale and Retail Trade	177,057	10.76	324,638	14.13	159,674	15.31	111,519	5.85
Hotel and Food Services	2,679	0.16	1,071	0.05	5,635	0.54	775	0.04
Transportation and Telecommunication	49,413	3.00	27,637	1.20	53,234	5.10	37,066	1.94
Financial Institutions	836,601	50.84	712,513	31.01	259,448	24.88	696,544	36.51
Real Estate and Leasing Ser.	20,965	1.27	71,177	3.10	9,690	0.93	64,170	3.36
Professional Services	116,103	7.06	851	0.04	120,092	11.52	25,150	1.32
Education Services	445	0.03	-	-	350	0.03	-	-
Health and Social Services	14,307	0.87	2,110	0.09	13,881	1.33	8,133	0.43
Other	32,920	2.00	2,736	0.12	24,813	2.38	2,561	0.13
Total	1,645,425	100.00	2,297,698	100.00	1,042,789	100.00	1,907,803	100.00

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations and Notes on Off-Balance Sheet Accounts (Continued)

a. Information on off balance sheet commitments (Continued)

3(iii). Information on non-cash loans classified in Group I and Group II

31 December 2017	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans (*)				
Letters of Guarantee	1,584,805	1,427,564	58,935	48,459
Bank Acceptances	-	9,564	-	-
Letters of Credit	1,685	809,282	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	-	2,829	-	-
Total	1,586,490	2,249,239	58,935	48,459

31 December 2016	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans (*)				
Letters of Guarantee	976,132	1,029,257	64,997	16,001
Bank Acceptances	-	3,885	-	-
Letters of Credit	1,660	266,777	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	-	591,883	-	-
Total	977,792	1,891,802	64,997	16,001

(*) The amount of non-cash loans of customers which were classified as non-performing receivables is TL 54,878 (31 December 2016: TL 41,143) and check risk amounts are TL 45,777 (31 December 2016: TL 44,189).

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. Explanations and Notes on Off-Balance Sheet Accounts (Continued)
b. Information on derivative financial instruments

	31 December 2017	31 December 2016
Types of Trading Transactions		
Foreign Currency Related Derivative Transactions (I)	18,993,009	15,315,530
Currency Forward Transactions	510,735	377,711
Currency Swap Transactions	15,561,534	12,625,738
Futures Transactions	-	-
Options	2,920,740	2,312,081
Securities Options	-	-
Interest Related Derivative Transactions (II)	1,321,612	768,496
Forward Rate Agreements	-	-
Interest Rate Swaps	386,238	-
Interest Rate Options	935,374	768,496
Interest Rate Futures	-	-
Other Trading Transactions (III)	60,351	56,307
A. Total Trading Derivative Transactions (I+II+III)	20,374,972	16,140,333
Types of Hedging Transactions		
Fair Value Hedges	110,000	220,000
Cash Flow Hedges	-	-
Foreign Currency Investment Hedges	-	-
B. Total Hedging Derivatives	110,000	220,000
Total Derivative Transactions (A+B)	20,484,972	16,360,333

c. Investment Funds

None.

d. Information on contingent liabilities

Outstanding legal claims against the Bank have been considered as contingent liabilities amounting to TL 29,411 and TL 12,154 provisions is provided against these legal cases (31 December 2016: Contingent liability: TL 25,048, Provision: TL 13,150).

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations And Notes on Income Statement

a. Information on interest income

1. Information on interest income on loans

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Short-term Loans	457,861	33,286	392,542	34,158
Medium/Long-term Loans	365,063	270,154	219,140	206,374
Interest on Loans Under Follow-up	11,921	-	12,860	-
Premiums Received from Resource Utilisation Support Fund	-	-	-	-
Total (*)	834,845	303,440	624,542	240,532

(*) Includes fee and commission income received for cash loans.

2. Information on interest income on banks

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
From the CBRT (*)	10,281	13,847	2,713	6,127
From Domestic Banks	27,847	2,982	14,532	646
From Foreign Banks	1,167	1,198	1,730	564
Headquarters and Branches Abroad	-	-	-	-
Total	39,295	18,027	18,975	7,337

(*) Interest incomes from Turkish Lira and Foreign Currency reserves, unrestricted accounts and reserve options which provided by CBRT has shown in "From the CBRT" line.

3. Information on interest income on marketable securities

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
From Trading Financial Assets	990	380	407	364
From Financial Assets At Fair Value Through Profit or Loss	-	-	-	-
From Available-for-Sale Financial Assets	29,915	69,314	31,957	66,318
From Held-to-Maturity Investments	-	45,245	-	-
Total	30,905	114,939	32,364	66,682

4. Information on interest income received from investments in associates and subsidiaries

	31 December 2017	31 December 2016
Interest Received from Associates and Subsidiaries	9,727	4,098

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations And Notes on Income Statement (Continued)

b. Information on interest expense

1. Information on interest expense on borrowings

	31 December 2017		31 December 2016	
	TL	FC	TL	FC
Banks	564	161,506	1,181	112,967
CBRT	7	-	-	-
Domestic Banks	557	2,097	1,181	2,562
Foreign Banks	-	159,409	-	110,405
Headquarters and Branches Abroad	-	-	-	-
Other Institutions	-	45,684	-	48,503
Total (*)	564	207,190	1,181	161,470

(*) Includes fee and commission expense related with cash loans.

2. Information on interest expense given to investments in associates and subsidiaries

	31 December 2017	31 December 2016
Interest Paid to Associates and Subsidiaries	1,413	4,168

3. Information on interest expense to marketable securities issued

	31 December 2017	31 December 2016
Information on Interest Expense to Marketable Securities Issued	29,314	25,851

4. Information on interest rate and maturity structure of deposits

	Demand Deposit	Time Deposit						Total
		Up to 1 Months	Up to 3 Months	Up to 6 Months	Up to 1 Year	Over 1 Year	Accumulated Deposit	
Turkish Lira								
Bank Deposits	-	8,714	3,120	-	-	-	-	11,834
Savings Deposits	-	12,999	204,691	1,468	287	87	24	219,556
Public Deposits	-	-	-	-	-	-	-	-
Commercial Deposits	-	32,063	179,121	6,622	1,069	125	-	219,000
Other Deposits	-	543	7,013	260	-	-	-	7,816
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Precious Metal Deposits	-	-	-	-	-	-	-	-
Total	-	54,319	393,945	8,350	1,356	212	24	458,206
Foreign Currency								
Foreign Currency Account	-	5,197	127,888	17,501	3,863	393	-	154,842
Bank Deposits	-	4,864	1,521	-	-	-	-	6,385
Deposit with 7 Days Notification	-	-	-	-	-	-	-	-
Precious Metal Deposits	-	-	5,295	-	-	-	-	5,295
Total	-	10,061	134,704	17,501	3,863	393	-	166,522
Grand Total	-	64,380	528,649	25,851	5,219	605	24	624,728

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations And Notes on Income Statement (Continued)

c. Information on dividend income

There is dividend income amounting to TL 177 as of 31 December 2017 (31 December 2016: None).

d. Information on trading income/loss (Net)

	31 December 2017	31 December 2016
Income	13,773,770	10,084,491
Income from Capital Market Transactions	785	38,261
Derivative Financial Transactions	726,265	716,372
Foreign Exchange Gains	13,046,720	9,329,858
Loss (-)	13,828,066	10,024,542
Loss from Capital Market Transactions	2,161	12,375
Derivative Financial Transactions	874,332	775,548
Foreign Exchange Loss	12,951,573	9,236,619
Net Income/(Loss)	(54,296)	59,949

e. Explanations about other operating income

	31 December 2017	31 December 2016
Reversal of Specific Loan Provisions	53,901	80,133
Gain on Sale of Property, Plant and Equipment	4,658	3,289
Provision for Communication Costs Received from Customers	1,045	1,207
Provision for the Expenses Recovered from Customers	1,285	822
Commissions Received from Subsidiaries	518	356
Other	9,497	5,842
Total	70,904	91,649

f. Provision expenses related to loans and other receivables

	31 December 2017	31 December 2016
Specific Provisions for Loans and Other Receivables	151,553	204,950
III. Group Loans and Receivables	36,592	40,212
IV. Group Loans and Receivables	35,090	63,150
V. Group Loans and Receivables	79,871	101,588
General Provision Expenses	7,939	-
General Provisions for Possible Risks	-	-
Marketable Securities Impairment Expense	19,374	13,140
Financial Assets at Fair Value Through Profit or Loss	9,474	154
Available-for-sale Financial Assets	9,900	12,986
Investments in Associates, Subsidiaries and Held-to-Maturity Securities Value Decrease	6,633	-
Investments in Associates	-	-
Subsidiaries	-	-
Joint Ventures	-	-
Held-to-Maturity Investments	6,633	-
Other	4,235	19,296
Total	189,734	237,386

ALTERNATİFBANK A.Ş.
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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. Explanations And Notes on Income Statement (Continued)

g. Information related to other operating expenses

	31 December 2017	31 December 2016
Personnel Expenses	152,321	148,033
Unused Vacation	23	-
Impairment Expenses of Tangible Assets	-	-
Depreciation Expenses of Tangible Assets	11,114	8,495
Impairment Expenses of Intangible Assets	-	-
Impairment Expense of Goodwill	-	-
Amortisation Expenses of Intangible Assets	7,329	5,349
Impairment Expenses of Equity Participations Accounted for under Equity Method	-	-
Impairment Expenses of Assets Held For Sale	-	-
Depreciation Expenses of Assets Held for Sale	-	962
Impairment Expenses of Tangible Assets Held for Sale	-	-
Other Operating Expenses	84,242	86,658
Operational Lease Expenses	31,098	29,551
Maintenance Expenses	961	976
Advertising Expenses	4,559	4,460
Other Expenses	47,624	51,671
Loss on Sales of Assets	2,834	13,686
Other (*)	27,792	22,485
Total	285,655	285,668

(*) Other operating charges is TL 11,160 (31 December 2016: TL 5,912) except premium of SDIF and tax amounting to TL 16,632 (31 December 2016: TL 16,573).

h. Explanations on profit and loss from continuing operations before tax

	31 December 2017	31 December 2016
Net Interest Income	487,201	345,536
Net Fees And Commissions Income/Expense	52,191	27,857
Dividend Income	177	-
Trading Income / Loss (Net)	(54,296)	59,949
Other Operating Income	70,904	91,649
Provision For Loan Losses And Other Receivables (-)	(189,734)	(237,386)
Other Operating Expenses (-)	(285,655)	(285,668)
Income/ Loss Before Tax From Continuing Operations	80,788	1,937

ALTERNATİFBANK A.Ş.**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2017**

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**IV. Explanations and Notes on Income Statement (Continued)****i. Provision for taxes on income from continuing operations**

As of 31 December 2017, the Bank has current tax expense is amounting to TL 31,356 (31 December 2016: TL 2,074), and deferred tax income amounting to TL 16,531 (31 December 2016: TL 8,941).

j. Information on net income/loss for the period

- 1) Interest income from ordinary banking transactions is TL 1,364,977 (31 December 2016: TL 1,052,203), interest expense is TL 877,776 (31 December 2016: TL 706,667).
- 2) Information on any change in the accounting estimates has no profit/loss effect on current period or consequent periods.

k. If the other items in the income statement exceed 10% of the income statement total, accounts amounting to at least 20% of these items are shown below:

Fees and Commissions Received - Other	31 December 2017	31 December 2016
Insurance Commissions	13,934	2,804
Credit Card Pos Commissions	7,871	16,619
Credit Early Termination Compensation	3,953	-
Expertise Commissions	2,294	1,836
Transfer Commissions	1,703	1,642
Banking Service Income	1,224	610
Account Management Fee Commission	1,172	1,490
Export Letters of Credit Commissions	1,168	1,595
Other	3,562	1,171
Total	36,881	27,767
Fees and Commissions Paid - Other	31 December 2017	31 December 2016
Fees and Commissions on Foreign Currency Transactions	6,815	12,099
Debit Card Fees and Commissions	5,491	9,243
Clearing Commissions	2,081	2,492
Commissions Granted to Correspondent Banks	1,557	806
CBRT Interbank Money Market	1,544	1,330
Pos Transaction Commissions Paid	785	654
Commissions for Effective and Future Transactions	461	1,211
Transfer Commissions	252	369
Other	451	351
Total	19,437	28,555

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**V. Explanations and Notes on Changes in Shareholders' Equity****a. Information on profit distribution:**

None.

b. Information on available for sale financial assets:

"Unrealised gain/loss" arising from changes in the fair value of securities classified as available-for-sale are not recognized in current year profit and loss statement but recognized in the "Marketable securities value increase fund" account under equity, until the financial assets are derecognised, sold, disposed or impaired.

c. Information on increase/decrease amounts result from the merger:

None.

d. Information on share issue premium:

Explained in details in note XIX of section three.

VI. Explanations And Notes on Statement Of Cash Flows**a. Information on cash and cash equivalent assets:**

1. Components of cash and cash equivalents and the accounting policy applied in their determination:

Cash and foreign currency together with demand deposits at banks including the CBRT are defined as "Cash"; Interbank money market and time deposits in banks with original maturities of less than three months are defined as "Cash Equivalents".

2. Effect of a change on the accounting policies: None.

2. Reconciliation of cash and cash equivalent items with balance sheet and cash flow statements:

3 (i). Cash and cash equivalents at the beginning of period:

	31 December 2017	31 December 2016
Cash	102,047	80,405
Cash Equivalents	1,371,460	1,205,727
CBRT	481,133	244,340
Deposits in Bank and Other Financial Inst.	540,327	611,387
Money Markets	350,000	350,000
Total Cash and Cash Equivalents	1,473,507	1,286,132

The total amount from the operations occurring in the prior period is the total cash and cash equivalents amount at the beginning of the current period,

3(ii). Cash and cash equivalents at the end of the period:

	31 December 2017	31 December 2016
Cash	94,963	102,047
Cash Equivalents	1,306,598	1,371,460
CBRT	676,767	481,133
Deposits in Bank and Other Financial Inst.	279,831	540,327
Money Markets	350,000	350,000
Total Cash and Cash Equivalents	1,401,561	1,473,507

ALTERNATİFBANK A.Ş.**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2017**

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**VI. Explanations and Notes on Statement Of Cash Flows (Continued)****b. Information on cash and cash equivalents that are not in use due to legal limitations and other reasons:**

TL 1,509,959 of unfixed principal amount in the account of Central Bank of Turkey is required reserve established in FX and gold, for the TRY, FX and gold liabilities of the Bank (31 December 2016: TL 1,384,645).

c. The effects of the change in foreign exchange rates on cash and cash equivalents:

Decrease in "Other Account" amounting to TL 208,953 (31 December 2016: TL 873,150 increase) which is classified under "Operating profit before changes in operating assets and liabilities" basically includes Fee and Commissions, Other Operating Expenses excluding Personnel Expenses, Foreign Exchange Gains/Losses as well as Provision and Depreciation that do not create cash in/outflow.

Increase in "Net increase/decrease in other liabilities amounting to TL 188,141 (31 December 2016: TL 38,505 decrease) which is classified under "Operating profit before changes in operating assets and liabilities" includes changes in Miscellaneous Payables, Other Liabilities, Taxes Payable, Charges, Duties and Premiums.

The effects of the change in foreign exchange rates on cash and cash equivalents is calculated approximately TL 183,183 as of 31 December 2017 (31 December 2016: TL 322,333).

V. Explanations and Notes on Bank's Risk Group**a. The volume of transactions relating to the Bank's risk group, outstanding loan and deposit transactions and profit and loss of the period**

1. 31 December 2017

Bank's Risk Group ^(*) ^(**)	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-cash
Loans and Other Receivables						
Balance at the Beginning of the Period	102,576	6,125	-	80,452	18,795	-
Balance at the End of the Period	161,369	2,243	-	249,646	113,277	2,870
Interest and Commission Income Received	9,727	1,047	260	43	2,825	17

(*) Defined in the 49th article of paragraph 2 of the Banking Act No. 5411.

(**) The information in table above includes bank receivables as well as loans and receivables.

2. 31 December 2016

Bank's Risk Group ^(*) ^(**)	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-cash
Loans and Other Receivables						
Balance at the Beginning of the Period	55,395	1,897	79,726	53,526	130,282	26,379
Balance at the End of the Period	102,576	6,125	-	80,452	18,795	-
Interest and Commission Income Received	4,098	577	-	26	122	4

(*) Defined in the 49th article of paragraph 2 of the Banking Act No. 5411.

(**) The information in table above includes banks as well as loans and receivables.

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)

V. Explanations and Notes on Bank's Risk Group (Continued)

a. The volume of transactions relating to the Bank's risk group, outstanding loan and deposit transactions and profit and loss of the period (Continued)

3. Information on deposits of the Bank's risk group

Bank's Risk Group ^(*)	Associates , subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deposit						
Beginning of the Period	110,659	49,552	-	256,033	21,532	94,743
End of the Period	48,486	110,659	-	-	74,207	21,532
Interest Expense on Deposits	1,413	4,168	35,904	28,104	1,520	1,250

(*) Defined in the 49th article of subsection 2 of the Banking Act No. 5411.

4. Information on forward and option agreements and other derivative instruments with the Bank's risk group

Bank's Risk Group ^(*)	Associates , subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Transactions for trading purposes ^(**)						
Beginning of the Period ^(***)	36,123	-	-	13,945	-	-
End of the Period ^(***)	161,840	36,123	-	-	-	-
Total Profit / Loss	3,556	115	(18)	1		
Transactions for hedging purposes						
Beginning of the Period ^(***)	-	-	-	-	-	-
End of the Period ^(***)	-	-	-	-	-	-
Total Profit / Loss	-	-	-	-		

(*) Defined in the 49th article of subsection 2 of the Banking Act No. 5411.

(**) The Bank's derivative instruments are classified as "Financial Assets at Fair Value through Profit or Loss" according to TAS 39.

(***) The balances at the beginning and end of the periods are disclosed as the total of purchase and sell amounts of derivative financial instruments.

b. With respect to the Bank's risk group

1. The relations with entities that are included in the Bank's risk group and controlled by the Bank irrespective of the relationship between the parties:

The Bank performs various transactions with group companies during its banking activities. These are commercial transactions realised with market prices.

ALTERNATİFBANK A.Ş.**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2017**

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EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**V. Explanations and Notes on Bank's Risk Group (Continued)****b. With respect to the Bank's risk group (Continued)**

2. The type of transaction, the amount and its ratio to total transaction volume, the amount of significant items and their ratios to total items, pricing policy and other issues

	Total Risk Group	Share in Financial Statements (%)
Deposits	122,693	1.09%
Non-cash Loans	254,759	6.46%
Loans	274,646	2.13%
Subordinated Loan	471,488	29.23%

These transactions are priced according to the Bank's pricing policy and they are in line with the market prices.

3. Equity accounted transactions

None.

4. Information on transactions such as purchase-sale of immovable and other assets, purchase-sale of service, agent agreements, financial lease agreements, transfer of the information gained as a result of research and development, license agreements, financing (including loans and cash or in kind capital), guarantees, collaterals and management contracts

As of 31 December 2017, there is no financial leasing agreement between the Bank and Alternatif Finansal Kiralama A.Ş. The Bank has also cost sharing agreements with Alternatif Finansal Kiralama A.Ş. and Alternatif Yatırım Menkul Değerler A.Ş.

The Bank allocates cash and non-cash loans to the risk group of the Bank within limits of Banking Laws and that amount is 3.15% of total cash and non-cash loan amount (31 December 2016: 1.56%).

c. Information regarding benefits provided to the Bank's key management

Benefits provided to the Bank's key management amount to TL 18,536 as of 31 December 2017 (31 December 2016: TL 20,171).

VIII. Explanations and Notes on The Domestic, Foreign, Off-Shore Branches and Foreign Representatives of The Bank**a. Information on the Bank's domestic, foreign branches and foreign representatives:**

	Number	Number of Employees	Country of Incorporation	Total Asset	Statutory share capital
Domestic Branch	53	947			
Foreign Representative Office	-	-			
Foreign Branch	-	-		-	-
Off-Shore Banking Region Branch	-	-		-	-

b. Explanations on opening, closing of a branch or agency of the Bank or changing its organizational structure significantly

The Bank does not open any new branch in 2017.

ALTERNATİFBANK A.Ş.**NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2017**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

EXPLANATIONS AND NOTES ON THE UNCONSOLIDATED FINANCIAL STATEMENTS (Continued)**IX. Explanations and Notes on Subsequent Events**

With the decision of number 1 of the Board of Directors dated on 9 January 2018 and with the approval of BRSA dated on 23 January 2018, the capital increase is registered in Commercial Registry Gazette number of 9512 and dated on 8 February 2018 and the capital is increased from TL 980,000 to TL 1,167,000. In this respect, The Commercial Bank (P.S.Q.C) was included in the capital increase with TL 187,000 by cash and this amount transferred it to the capital account.

With the permission of the Capital Markets Board dated 23 August 2017 and numbered 32/1064, the nominal amount of the 76 days maturity distributed coupon which issued on 10 January 2018 through sales to qualified investors without offering to public was realized as TL 150,000 within the scope of the Certificate of Issuance of the Capital Markets Instruments which are not subject to public offering in Turkey or not giving a share of partnership to be exported abroad.

SECTION SIX**OTHER EXPLANATIONS****I. Other Explanations Related to Bank's Operations****Summary information about the Bank's rates from international credit rating agencies**

Fitch Ratings: May 2017	
Foreign Currency	BBB- (Stable)
Long Term	
Short Term	F3
Local Currency	BBB- (Stable)
Long Term	
Short Term	F3
National Note	AAA(tur) (Stable)
Support Note	2
Financial Capacity Note	b+

Moody's: September 2017	
Foreign Currency	Ba2
Long Term	
Short Term	NP
Local Currency	Ba1
Long Term	
Short Term	NP
National Long Term	Aa1.tr
National Short Term	TR-1
Outlook	Negative

SECTION SEVEN**DISCLOSURES ON THE AUDITORS' REPORT****I. Explanations on the Independent Auditors' Report**

The Bank's unconsolidated financial statements and footnotes to be disclosed to public as of 31 December 2017 have been audited by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International, a Swiss cooperative) and the independent auditors' report dated 16 February 2018 has been presented at the beginning of this report.

II. Explanations and Footnotes Prepared by Independent Auditor

None.