

(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 ("BRSA") 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 BRSA 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 BRSA 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> |
|---|---|
| <i>Impairment on loans and receivables</i> As of 31 December 2017 loans and receivables comprise 68% of the Bank's assets. 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. 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. Disclosures related to impairment are presented in Section Three, Note VIII. | Our significant audit procedures for testing the impairment on loans and receivables are as follows: Design and operational effectiveness of the controls on lending, allocation, collateralization, collection, follow-up, classification and impairment processes have been tested. 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. Sufficiencies of disclosures for impairment on loans and receivables to the financial statements have been assessed. |

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

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

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 | - |
| | İzzat 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 Kıvrak | 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 Kıvrak 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 Preperation of Unconsolidated Financial Statements of Banks and Turkish Accounting Standarts 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 |
| I. | 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 | | - | - | - | - | - | - |
| 16.2.7 | 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 | 46,675 |
| 4.3 | Cheques Received for Collection | | 385,041 | 21,160 | 406,201 | 233,535 | 9,556 | 243,091 |
| 4.4 | Commercial Notes Received for Collection | | 41,268 | 22,466 | 63,734 | 38,858 | 24,736 | 63,594 |
| 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 | IV-a | 1,364,977 | 1,052,203 |
| 1.1 Interest on Loans | | 1,138,285 | 865,074 |
| 1.2 Interest Received from Reserve Requirements | | 17,098 | 8,841 |
| 1.3 Interest Received from Banks | | 40,224 | 17,471 |
| 1.4 Interest Received from Money Market Transactions | | 20,482 | 56,962 |
| 1.5 Interest Received from Marketable Securities Portfolio | | 145,844 | 99,046 |
| 1.5.1 Trading Financial Assets | | 1,370 | 771 |
| 1.5.2 Financial Assets at Fair Value Through Profit or Loss | | - | - |
| 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

| | | Audited 1 January 2017- 31 December 2017 | Audited 1 January 2016- 31 December 2016 |
|--|---|--|--|
| INCOME AND EXPENSE ITEMS ACCOUNTED IN EQUITY | | | |
| 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 | 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 Cancellation Profits | Legal Reserves | Status Reserves | Extraordinary Reserves | Other Reserves | Current Period Net Income / (Loss) | Prior Period Net Income/ (Loss) | Marketable Securities Valuation 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 | | 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 | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 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 | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 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.

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 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 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.

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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's 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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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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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.

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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.

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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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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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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 I 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 | - | |

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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 Countercyclical 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-I 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 |
| Issuer call subject to prior supervisory approval | -Illegality, - After 5th year, -Taxation reason and -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 | - |

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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 |
| Issuer call subject to prior supervisory approval | -Illegality, - After 5th year, -Taxation reason and -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 | 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 | - |

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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 |
| Issuer call subject to prior supervisory approval | -Illegality, - After 5th year, -Taxation reason and -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 | - |

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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;

| | Usd | Euro |
|-------------------|------------------|------------------|
| Rate Used: | 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 | 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 centrally. 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 |
|------------------------------------|--------------------------------------|------------------|------------------------------------|
| | +500bps | (166,041) | (5.67)% |
| 1.TRY | -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 |
|------------------------------------|--------------------------------------|------------------|------------------------------------|
| | +500bps | (133,927) | (5.03)% |
| 1.TRY | -400 bps | 80,664 | 3.03% |
| | +200 bps | (42,694) | (1.61)% |
| 2.EURO | -200 bps | 42,384 | 1.59% |
| | +200 bps | (59,404) | (2.23)% |
| 3.USD | -200 bps | 77,348 | 2.91% |
| Total (For Negative Shocks) | | (236,025) | (8.87)% |
| Total (For Positive Shocks) | | 200,396 | 7.53% |

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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 Assessment 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 Unapplied to Total Value (*) | | Consideration Ratio Applied to Total Value (*) | |
|---|---|----------------|---|------------------|
| | TL+FC | FC | 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 |
| 11 Derivative cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions | 48,483 | 9,405 | 48,483 | 9,405 |
| 12 Obligations related to structured financial products | - | - | - | - |
| 13 Commitments related to debts to financial markets and other off-balance sheet obligations | - | - | - | - |
| 14 Other revocable off-balance sheet commitments and contractual obligations | 3,096,106 | 1,714,978 | 676,772 | 254,258 |
| 15 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 |
| 11 | Derivative cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions | 31,321 | 1,524 | 31,321 | 1,524 |
| 12 | Obligations related to structured financial products | - | - | - | - |
| 13 | Commitments related to debts to financial markets and other off-balance sheet obligations | - | - | - | - |
| 14 | Other revocable off-balance sheet commitments and contractual obligations | 2,773,401 | 1,301,581 | 422,040 | 181,397 |
| 15 | 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.

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | 5 years and over | Total |
|--|------------------|------------------|------------------|------------------|---------------------|-------------------|
| 31 December 2017 | | | | | | |
| 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 |

| | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | 5 years and over | Total |
|--|------------------|------------------|------------------|------------------|---------------------|-------------------|
| 31 December 2016 | | | | | | |
| 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:

| | 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 |

| | 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 | | Amount | Financial Guarantees (*) | Other/ Physical Guarantees | Guarantees and Credit Derivatives |
|-------------------------|---|-------------------|---------------------------------|-----------------------------------|--|
| | Risk Groups | | | | |
| 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 | | Amount | Financial Guarantees (*) | Other/ Physical Guarantees | Guarantees and Credit Derivatives |
|-------------------------|---|-------------------|---------------------------------|-----------------------------------|--|
| | Risk Groups | | | | |
| 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-balancesheet | - | - |
| 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 |
| | Leverage ratio | | |
| 15 | Leverage ratio | %6.25 | 4.98% |

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

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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 deem 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 |
| 5 | 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 |

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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

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 paralel 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) | c | d |
| 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 "Communique on Credit Risk Mitigation Techniques" (legal communique) 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 Communique 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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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

| | | 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 |
| | Risk Classes | | | | | | |
| 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 corporate 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 | - | - | - | - | - | - | 549,866 | - | - | - | 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 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) | 9,725 |
| 2 | Equity risk (general and specific) | - |
| 3 | Foreign exchange risk | 31,513 |
| 4 | Commodity risk | - |
| | Options | |
| 5 | Simplified approach | - |
| 6 | Delta-plus method | 1,562 |
| 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 (Annually):

| | 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

- Quoted market prices (non-adjusted) (1st level);
- 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);
- 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 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

- 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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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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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 | Other |
| 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 |

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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 personel 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 Loans and other receivables with limited collectability | IV. Group Loans and other receivables with doubtful collectability | V. Group 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.

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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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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)

1. 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 |
| Collaterals 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 |
| Collaterals 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 amounting 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 deferred 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 | | | | | Accumulated Deposit | Total |
|----------------------------------|----------------|----------------|----------------|----------------|--------------|-------------|---------------------|----------------|
| | | Up to 1 Months | Up to 3 Months | Up to 6 Months | Up to 1 Year | Over 1 Year | | |
| 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 |

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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 |

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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 |

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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

| | 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 |
| Bank's Risk Group (*) (**) | | | | | | |
| 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

| | 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 |
| Bank's Risk Group (*) (**) | | | | | | |
| 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.

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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.

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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 | |
| Long Term | BBB-(Stable) |
| Short Term | F3 |
| Local Currency | |
| Long Term | BBB-(Stable) |
| Short Term | F3 |
| National Note | AAA(tur)(Stable) |
| Support Note | 2 |
| Financial Capacity Note | b+ |

| | |
|--------------------------------|----------|
| Moody's: September 2017 | |
| Foreign Currency | |
| Long Term | Ba2 |
| Short Term | NP |
| Local Currency | |
| Long Term | Ba1 |
| 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.