

*(Convenience Translation of Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish, See Section 3.1)*

Arap Türk Bankası Anonim Şirketi

Consolidated Financial Statements
As of and For the Three Month Period Ended 31 March 2017
With Limited Auditors' Report Thereon
*(Convenience Translation of Consolidated
Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish)*

26 April 2017

*This report contains "Limited Auditors' Report"
comprising 2 pages and; "Consolidated Financial
Statements and Related Disclosures and Footnotes"
comprising 76 pages.*



Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.
No:29 Beykoz 34805 İstanbul
Tel +90 (216) 681 90 00
Fax +90 (216) 681 90 90
www.kpmg.com.tr

LIMITED REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

To the Board of Directors of Arap Türk Bankası Anonim Şirketi

Report on the Consolidated Financial Statements

We have reviewed the accompanying statement of financial position of Arap Türk Bankası A.Ş. (the "Bank") and its financial subsidiaries (together the "Group") as at 31 March 2017 and the consolidated statements of income, consolidated statement of income and expense items accounted under shareholders' equity, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the three-month period then ended and summary of significant accounting policies and other explanatory information ("interim financial information"). The Bank Management is responsible for the preparation and fair presentation of this interim financial information in accordance with "Banking Regulation and Supervision Agency (BRSA) Accounting and Reporting Legislation" which includes "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 Agency (together referred as BRSA Accounting and Reporting Legislation) and Turkish Accounting Standard 34 "Interim Financial Reporting" except for the matters regulated by afore-mentioned legislations. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of limited review

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



Basis of Qualified Conclusion

The accompanying consolidated financial information as of 31 March 2016 include a general provision total amounting to TL 16,000 thousands provided by the Parent Bank management for the possible result of the negative circumstances which may arise from any circumstances from any change in economy or market conditions.

Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not presented fairly, in all material respects, the consolidated financial position of Arap Türk Bankası A.Ş. and its financial subsidiaries as of 31 March 2017 and the result of its operations and consolidated cash flows for the three-month period then ended in accordance with "BRSA Accounting and Reporting Legislation".

Report on other regulatory requirements arising from legislation

Based on our review, nothing has come to our attention that causes us to believe that the financial information provided in the accompanying interim annual report in Section VII, are not consistent with the consolidated financial statements and disclosures in all material respects.

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

Erdal Tıkmak, SMMM

Partner

26 April 2017
İstanbul, Turkey

Additional Paragraph for convenience translation to English:

As explained in Section 3.1, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

**ARAP TÜRK BANKASI A.Ş. CONSOLIDATED INTERIM FINANCIAL REPORT
AS OF AND FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2017**

Address of the Bank's Headquarters : Valikonağı Caddesi No:10, 34367 – ŞİŞLİ/İSTANBUL
Telephone and Fax Numbers : Tel : 0 212 225 05 00 Faks: 0 212 225 05 26
Website of the Bank : http://www.atbank.com.tr
E-mail address of the Bank : corp@atbank.com.tr


The consolidated interim financial report as of and for the three month period ended 31 March 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 Banking Regulation and Supervision Agency, is comprised of the following sections:

- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE CONSOLIDATED GROUP
- DISCLOSURES AND FOOTNOTES RELATED TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
- OTHER DISCLOSURES
- INDEPENDENT AUDITOR'S REVIEW REPORT
- INTERIM ACTIVITY REPORT

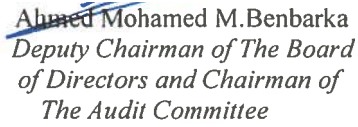
The subsidiaries, associates and jointly controlled companies included in the consolidated interim financial report are as follows:

	Subsidiaries	Associates	Jointly Controlled Companies
1	A&T Finansal Kiralama A.Ş.	-	-

The consolidated interim financial statements and related disclosures and footnotes that were subject to limited review, are prepared in accordance with the “Regulation on Accounting Applications for Banks and Safeguarding of Documents”, Turkish Accounting Standards, Turkish Financial Reporting Standards related appendices and interpretations on these. Unless stated otherwise, the accompanying consolidated interim financial statements are presented in thousands of Turkish Lira (TL) as of 31 March 2017 and have been subject to limited review.

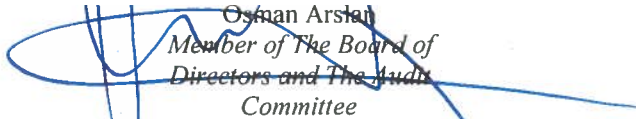


Yılmaz Ertürk
*Chairman of the Board of
Directors*

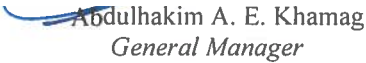


Ahmed Mohamed M. Benbarka
*Deputy Chairman of The Board
of Directors and Chairman of
The Audit Committee*

Abdurauf Ibrahim G. Shneba
*Member of The Board of
Directors and The Audit
Committee*



Osman Arslan
*Member of The Board of
Directors and The Audit
Committee*



Abdulkham A. E. Khamag
General Manager



Süleyman Hatipoğlu
*Assistant General Manager
Responsible For Financial Reporting*

Feyzullah Küpeli
Manager

Contact information of the personnel for addressing questions regarding this financial report

Name / Title: Feyzullah Küpeli / Manager

Phone No : 0 212 225 05 00

Fax No : 0 212 225 05 26

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SECTION ONE**GENERAL INFORMATION ABOUT THE PARENT BANK****I. PARENT BANK’S DATE OF ESTABLISHMENT, BEGINNING STATUTE, ITS HISTORY REGARDING CHANGES ON ITS STATUTE**

Arap Türk Bankası Anonim Şirketi (“the Bank”) has been established in 1977 as a joint stock entity in accordance with an agreement signed on 11 August 1975 between the Republic of Turkey and the Libyan Arab Republic. The duration of the Bank is 50 years from the commencement of the Agreement. This period shall be renewable automatically unless agreed otherwise by an Extraordinary General Meeting held at least one year prior to expiration.

In accordance with the Articles of Association, the Board of Directors shall elect a Chairman among its Turkish members and a Deputy Chairman among its Arab members. The General Manager shall always be nominated by Libyan Foreign Bank assigned by the Board.

II. PARENT BANK’S SHARE CAPITAL STRUCTURE, SHAREHOLDERS DIRECTLY OR INDIRECTLY, ALONE OR TOGETHER HOLDING THE MANAGEMENT AND CONTROL OF THE BANK, RELATED CHANGES WITHIN THE YEAR AND INFORMATION ABOUT THE BANK’S GROUP

The Parent Bank is a foreign bank status incorporated in Turkey. The main shareholder Libyan Foreign Bank is 100% owned by Central Bank of Libya. The main shareholder Libyan Foreign Bank has financial investments in various countries.

The shareholder’s other qualified shares are Türkiye İş Bankası A.Ş., and T.C. Ziraat Bankası A.Ş.

As of 31 March 2017, the Parent Bank’s share capital at the balance sheet date as follows:

Shareholders	Current Period		Prior Period	
	Shares	Ownership ⁽¹⁾	Shares	Ownership ⁽¹⁾
Libyan Foreign Bank	274,426	62.37%	274,426	62.37%
T. İş Bankası A.Ş.	90,534	20.58%	90,534	20.58%
T.C. Ziraat Bankası A.Ş.	67,900	15.43%	67,900	15.43%
Kuwait Investment Co.	7,140	1.62%	7,140	1.62%
Total	440,000	100%	440,000	100%

⁽¹⁾ Emek İnşaat ve İşletme A.Ş. has 0,0000014% share in the paid capital by TL 6.20 (full digit in TL) (31 December 2016: 0,0000014% share and TL 6.20 (full digit in TL)).

III. INFORMATION ABOUT THE PARENT BANK’S CHAIRMAN AND MEMBERS OF BOARD OF DIRECTORS, MEMBERS OF AUDIT COMMITTEE, GENERAL MANAGER AND ASSISTANT GENERAL MANAGERS AND THEIR QUALIFICATIONS, RELATED CHANGES WITHIN THE YEAR AND THEIR SHARES AT THE BANK**Chairmen of the Board of Directors and Board Members**

Name	Job Title – Description
Yılmaz Ertürk	Chairman of the Board of Directors
Ahmed Mohamed M. Benbarka	Deputy Chairman of the Board of Directors and Head of the Audit Committee
Abdulahkim A. E. Khamag	Member of the Board of Directors and General Manager
Abdurauf İbrahim G.Shneba	Member of the Board of Directors and Audit Committee
Osman Arslan	Member of the Board of Directors and Audit Committee
Bilgehan Kuru	Member of the Board of Directors and Audit Committee
Kemal Şahin	Member of the Board of Directors
Abdulfatah A. Enaami	Member of the Board of Directors
Hani Alhmali Allafi İbrahim	Member of the Board of Directors

⁽¹⁾ As of 27 March 2017, Bilgehan Kuru was elected to Board Member pursuant to General Assembly due to the resignation of Ömer Muzaffer Baktır on 20 April 2017.

General Manager and Deputies

Name	Job Title – Description
Abdulahkim A. E. Khamag	Member of the Board of Directors and General Manager
Salih Hatipoğlu	Assistant General Manager - Financial Management and Planning Division
Abdulmonam Geat Ali Tbigha	Assistant General Manager - Credits Division
Abdussalam Elfituri B.Abushagur	Assistant General Manager - Information Technologies and Operations Division
Emel Güneş Atagün	Assistant General Manager – Department of Treasury and Economic Research Division

Members of the board and top level managers do not possess any share in the Bank.

IV. INFORMATION ON PEOPLE AND ENTITIES WHO HAVE QUALIFIED SHARE IN THE PARENT BANK

Name Surname/Entity Title	Shares	Ownership ⁽¹⁾	Shares	Unpaid Shares
Libyan Foreign Bank	274,426	62.37	274,426	-
T. İş Bankası A.Ş.	90,534	20.58	90,534	-
T.C. Ziraat Bankası A.Ş.	67,900	15.43	67,900	-

V. INFORMATION ABOUT THE SERVICES AND NATURE OF ACTIVITIES OF THE PARENT BANK

The Parent Bank was established to incorporate commercial activities among Turkey, Middle East and North African countries. The Bank is authorized to collect deposits and operates in corporate banking areas.

The Bank has seven branches; three in Istanbul, one in Ankara, one in Kayseri, one in Konya and one in Gaziantep and has share participations in a subsidiary operating in financial leasing business.

VI. DIFFERENCES BETWEEN THE COMMUNIQUE ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND TURKISH ACCOUNTING STANDARDS AND SHORT EXPLANATION ABOUT THE ENTITIES SUBJECT TO FULL CONSOLIDATION OR PROPORTIONAL CONSOLIDATION AND ENTITIES WHICH ARE DEDUCTED FROM EQUITY OR ENTITIES WHICH ARE NOT INCLUDED IN THESE THREE METHODS

There is no difference for the Bank between the consolidation process according to the Turkish Accounting Standards and the Communiqué of the Preparation of Consolidated Financial Statements of Banks in Turkey.

VII. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE TRANSFER OF SHAREHOLDERS’ EQUITY BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES OR THE REIMBURSEMENT OF LIABILITIES

Immediately transfer of the shareholders’ equity between the Parent Bank and its subsidiary is not available. Dividend distribution from shareholders equity is done according to related regulations.

There are no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Parent Bank and its subsidiary. The Bank charge or pay cost of the services according to the service agreements done between the Parent Bank and its subsidiary.

SECTION TWO

CONSOLIDATED FINANCIAL STATEMENTS

- I. Consolidated Balance Sheet (Statement of Financial Position)**
- II. Statement of Consolidated Off Balance Sheet Items**
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- IV. Statement of Recognized Income and Expense in Consolidated Shareholders' Equity**
- V. Statement of Changes in Consolidated Shareholders' Equity**
- VI. Statement of Consolidated Cash Flow**

Arap Türk Bankası Anonim Şirketi
Consolidated Balance Sheet (Statement of Financial Position)
As of 31 March 2017

(Thousands of Turkish Lira)

ASSETS	Footnotes (5-1)	Reviewed			Audited		
		CURRENT PERIOD (31/03/2017)			PRIOR PERIOD (31/12/2016)		
		TL	FC	TOTAL	TL	FC	TOTAL
I. CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY	(1)	5,839	1,062,325	1,068,164	12,614	968,469	981,083
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	(2)	19,277	450,864	470,141	467	550,350	550,817
2.1 Financial assets held for trading		19,277	450,864	470,141	467	550,350	550,817
2.1.1 Public sector debt securities		19,277	329,195	348,472	-	430,997	430,997
2.1.2 Securities representing a share in capital		-	-	-	-	-	-
2.1.3 Derivatives held for trading		-	-	-	467	-	467
2.1.4 Other marketable securities		-	121,669	121,669	-	119,353	119,353
2.2 Financial assets designated at fair value through profit or loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Equity securities		-	-	-	-	-	-
2.2.3 Loans granted		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. BANKS	(3)	35,329	1,271,653	1,306,982	26,903	1,385,486	1,412,389
IV. MONEY MARKET PLACEMENTS		-	-	-	-	-	-
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange money market placements		-	-	-	-	-	-
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	224	1,455	1,679	224	1,410	1,634
5.1 Securities representing a share in capital		224	1,455	1,679	224	1,410	1,634
5.2 Public sector debt securities		-	-	-	-	-	-
5.3 Other marketable securities		-	-	-	-	-	-
VI. LOANS	(5)	735,927	729,302	1,465,229	732,834	694,462	1,427,296
6.1 Loans		733,795	729,302	1,463,097	728,534	694,462	1,422,996
6.1.1 Loans granted to the Bank's risk group		-	151,172	151,172	-	151,292	151,292
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		733,795	578,130	1,311,925	728,534	543,170	1,271,704
6.2 Loans under follow-up		21,011	-	21,011	21,049	-	21,049
6.3 Specific provisions (-)		18,879	-	18,879	16,749	-	16,749
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. INVESTMENTS HELD TO MATURITY (Net)	(6)	26,924	384,924	411,848	19,060	380,483	399,543
8.1 Public sector debt securities		10,400	291,593	301,993	12,269	293,582	305,851
8.2 Other marketable securities		16,524	93,331	109,855	6,791	86,901	93,692
IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	-	-	-	-	-	-
9.1 Consolidated by equity method		-	-	-	-	-	-
9.2 Unconsolidated associates		-	-	-	-	-	-
9.2.1 Financial investments in associates		-	-	-	-	-	-
9.2.2 Non-financial investments in associates		-	-	-	-	-	-
X. INVESTMENTS IN SUBSIDIARIES (Net)	(8)	-	-	-	-	-	-
10.1 Financial subsidiaries		-	-	-	-	-	-
10.2 Non-financial subsidiaries		-	-	-	-	-	-
XI. INVESTMENTS IN JOINT- VENTURES (Net)	(9)	-	-	-	-	-	-
11.1 Consolidated by equity method		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial investments in joint ventures		-	-	-	-	-	-
11.2.2 Non-financial investments in joint ventures		-	-	-	-	-	-
XII. LEASE RECEIVABLES (Net)	(10)	58,542	212,512	271,054	61,057	218,900	279,957
12.1 Finance lease receivables		70,032	232,668	302,700	73,656	237,095	310,751
12.2 Operational leasing receivables		-	-	-	-	-	-
12.3 Others		-	-	-	-	-	-
12.4 Unearned income (-)		11,490	20,156	31,646	12,599	18,195	30,794
XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING	(11)	-	-	-	-	-	-
13.1 Fair value hedges		-	-	-	-	-	-
13.2 Cash flow hedges		-	-	-	-	-	-
13.3 Hedges for investments made in foreign countries		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	(12)	116,668	-	116,668	22,862	-	22,862
XV. INTANGIBLE ASSETS (Net)		2,597	-	2,597	2,746	-	2,746
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		2,597	-	2,597	2,746	-	2,746
XVI. INVESTMENT PROPERTY (Net)	(13)	-	-	-	-	-	-
XVII. TAX ASSET	(14)	144	-	144	4,626	-	4,626
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset		144	-	144	4,626	-	4,626
XVIII. ASSET HELD FOR SALE AND ASSETS OF DISCONTINUED OPERATIONS (Net)	(15)	6	-	6	8	-	8
18.1 Held for sale purpose		6	-	6	8	-	8
18.2 Held from discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(16)	23,322	5,206	28,528	9,760	6,066	15,826
TOTAL ASSETS		1,024,799	4,118,241	5,143,040	893,161	4,205,626	5,098,787

Arap Türk Bankası Anonim Şirketi
Consolidated Balance Sheet (Statement of Financial Position)
As of 31 March 2017

(Thousands of Turkish Lira)

LIABILITIES AND SHAREHOLDERS' EQUITY		Footnotes (5-II)	Reviewed			Audited		
			CURRENT PERIOD (31/03/2017)			PRIOR PERIOD (31/12/2016)		
			TL	FC	TOTAL	TL	FC	TOTAL
I.	DEPOSITS	(1)	60,488	3,878,364	3,938,852	102,375	3,990,082	4,092,457
1.1	Deposits held by the Bank's risk group		1,032	2,885,784	2,886,816	54,450	2,843,517	2,897,967
1.2	Other		59,456	992,580	1,052,036	47,925	1,146,565	1,194,490
II.	DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	23	-	23	-	-	-
III.	FUNDS BORROWED	(3)	606	315,922	316,528	1,482	237,153	238,635
IV.	INTERBANK MONEY MARKET		20,005	-	20,005	3,495	-	3,495
4.1	Interbank money market payables		-	-	-	-	-	-
4.2	Istanbul Stock Exchange money market payables		-	-	-	-	-	-
4.3	Funds provided under repurchase agreements		20,005	-	20,005	3,495	-	3,495
V.	MARKETABLE SECURITIES ISSUED (Net)		-	-	-	-	-	-
5.1	Bills		-	-	-	-	-	-
5.2	Asset backed securities		-	-	-	-	-	-
5.3	Bonds		-	-	-	-	-	-
VI.	FUNDS		-	-	-	-	-	-
6.1	Borrower funds		-	-	-	-	-	-
6.2	Other		-	-	-	-	-	-
VII.	MISCELLANEOUS PAYABLES		2,292	7,165	9,457	1,523	29,016	30,539
VIII.	OTHER EXTERNAL RESOURCES	(4)	19,119	9,267	28,386	7,717	4,648	12,365
IX.	FACTORING PAYABLES		-	-	-	-	-	-
X.	LEASE PAYABLES (Net)	(5)	-	-	-	-	-	-
10.1	Finance leasing payables		-	-	-	-	-	-
10.2	Operational leasing payables		-	-	-	-	-	-
10.3	Other		-	-	-	-	-	-
10.4	Deferred finance leasing expenses (-)		-	-	-	-	-	-
XI.	DERIVATIVE FINANCIAL LIABILITIES HELD FOR HEDGING	(6)	-	-	-	-	-	-
11.1	Fair value hedges		-	-	-	-	-	-
11.2	Cash flow hedges		-	-	-	-	-	-
11.3	Hedges for investments made in foreign countries		-	-	-	-	-	-
XII.	PROVISIONS	(7)	54,533	2,137	56,670	54,001	2,059	56,060
12.1	General provisions		24,408	-	24,408	24,116	-	24,116
12.2	Restructuring reserves		-	-	-	-	-	-
12.3	Reserves for employee benefit		13,724	-	13,724	13,448	-	13,448
12.4	Insurance technical reserves (Net)		-	-	-	-	-	-
12.5	Other provisions		16,401	2,137	18,538	16,437	2,059	18,496
XIII.	TAX LIABILITY	(8)	12,025	-	12,025	11,147	-	11,147
13.1	Current tax liability		7,750	-	7,750	11,147	-	11,147
13.2	Deferred tax liability		4,275	-	4,275	-	-	-
XIV.	LIABILITIES FOR ASSETS HELD FOR RESALE AND ASSETS OF DISCONTINUED OPERATIONS		-	-	-	-	-	-
14.1	Held for sale purpose		-	-	-	-	-	-
14.2	Held from discontinued operations		-	-	-	-	-	-
XV.	SUBORDINATED LOANS		-	-	-	-	-	-
XVI.	SHAREHOLDERS' EQUITY	(9)	761,094	-	761,094	654,089	-	654,089
16.1	Paid-in capital		440,000	-	440,000	440,000	-	440,000
16.2	Supplementary capital		83,319	-	83,319	(2,943)	-	(2,943)
16.2.1	Share premium		-	-	-	-	-	-
16.2.2	Share cancellation profits		-	-	-	-	-	-
16.2.3	Securities Value Increase Fund		-	-	-	-	-	-
16.2.4	Revaluation surplus on tangible assets		-	-	-	-	-	-
16.2.5	Revaluation surplus on intangible assets		-	-	-	-	-	-
16.2.6	Revaluation surplus on investment property		-	-	-	-	-	-
16.2.7	Bonus shares of associates, subsidiaries and joint-ventures		-	-	-	-	-	-
16.2.8	Hedging reserves (effective portion)		-	-	-	-	-	-
16.2.9	Revaluation surplus on assets held for sale and assets of discontinued operations		-	-	-	-	-	-
16.2.10	Other capital reserves		(3,157)	-	(3,157)	(2,943)	-	(2,943)
16.3	Profit reserves		24,317	-	24,317	21,317	-	21,317
16.3.1	Legal reserves		24,314	-	24,314	21,314	-	21,314
16.3.2	Status reserves		-	-	-	-	-	-
16.3.3	Extraordinary reserves		3	-	3	3	-	3
16.3.4	Other profit reserves		-	-	-	-	-	-
16.4	Profit or loss		213,458	-	213,458	195,715	-	195,715
16.4.1	Prior years income/loss		192,715	-	192,715	132,486	-	132,486
16.4.2	Current year income/loss		20,743	-	20,743	63,229	-	63,229
16.5	Minority Interest		-	-	-	-	-	-
	TOTAL LIABILITIES		930,185	4,212,855	5,143,040	835,829	4,262,958	5,098,787

Arap Türk Bankası Anonim Şirketi

Statement of Consolidated Off Balance Sheet Items As of 31 March 2017

(Thousands of Turkish Lira)

	Footnotes (5-III)	Reviewed			Audited		
		CURRENT PERIOD (31/03/2017)			PRIOR PERIOD (31/12/2016)		
		TL	FC	TOTAL	TL	FC	TOTAL
A. OFF BALANCE SHEET COMMITMENTS (I+II+III)		212,293	2,456,650	2,668,943	206,219	2,433,463	2,639,682
I. GUARANTEES AND WARRANTIES	(1),(2)	179,084	2,403,595	2,582,679	176,285	2,353,468	2,529,753
1.1. Letters of guarantee		172,259	1,927,332	2,099,591	176,285	1,855,365	2,031,650
1.1.1. Guarantees subject to State Tender Law		627	207	834	110	201	311
1.1.2. Guarantees given for foreign trade operations		45,977	1,671,334	1,717,311	44,154	1,607,539	1,651,693
1.1.3. Other letters of guarantee		125,655	255,791	381,446	132,021	247,625	379,646
1.2. Bank acceptances		-	4,548	4,548	-	4,415	4,415
1.2.1. Import letter of acceptance		-	-	-	-	-	-
1.2.2. Other bank acceptances		-	4,548	4,548	-	4,415	4,415
1.3. Letters of credit		-	364,275	364,275	-	244,951	244,951
1.3.1. Documentary letters of credit		-	-	-	-	-	-
1.3.2. Other letters of credit		-	364,275	364,275	-	244,951	244,951
1.4. Prefinancing given as guarantee		-	-	-	-	-	-
1.5. Endorsements		-	-	-	-	-	-
1.5.1. Endorsements to the Central Bank of Turkey		-	-	-	-	-	-
1.5.2. Other endorsements		-	-	-	-	-	-
1.6. Securities issue purchase guarantees		-	-	-	-	-	-
1.7. Factoring guarantees		-	-	-	-	-	-
1.8. Other guarantees		6,825	107,440	114,265	-	248,737	248,737
1.9. Other warranties		-	-	-	-	-	-
II. COMMITMENTS	(1)	7,603	27,585	35,188	12,488	62,336	74,824
2.1. Irrevocable commitments		4,156	6,555	10,711	10,275	35,472	45,747
2.1.1. Asset purchase and sales commitments		-	-	-	5,867	11,132	16,999
2.1.2. Deposit purchase and sales commitments		-	-	-	-	16,811	16,811
2.1.3. Share capital commitment to associates and subsidiaries		-	-	-	-	-	-
2.1.4. Loan granting commitments		800	-	800	1,250	-	1,250
2.1.5. Securities issue brokerage commitments		-	-	-	-	-	-
2.1.6. Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7. Payment commitments for checks		3,356	-	3,356	3,158	-	3,158
2.1.8. Tax and fund liabilities from export commitments		-	-	-	-	-	-
2.1.9. Commitments for credit card expenditure limits		-	-	-	-	-	-
2.1.10. Commitments for credit cards and banking services promotions		-	-	-	-	-	-
2.1.11. Receivables from short sale commitments		-	-	-	-	-	-
2.1.12. Payables for short sale commitments		-	-	-	-	-	-
2.1.13. Other irrevocable commitments		-	6,555	6,555	-	7,529	7,529
2.2. Revocable commitments		3,447	21,030	24,477	2,213	26,864	29,077
2.2.1. Revocable loan granting commitments		-	-	-	-	-	-
2.2.2. Other revocable commitments		3,447	21,030	24,477	2,213	26,864	29,077
III. DERIVATIVE FINANCIAL INSTRUMENTS		25,606	25,470	51,076	17,446	17,659	35,105
3.1. Derivative financial instruments held for hedging		-	-	-	-	-	-
3.1.1. Fair value hedges		-	-	-	-	-	-
3.1.2. Cash flow hedges		-	-	-	-	-	-
3.1.3. Hedges for investments made in foreign countries		-	-	-	-	-	-
3.2. Trading transactions		25,606	25,470	51,076	17,446	17,659	35,105
3.2.1. Forward foreign currency buy/sell transactions		-	-	-	-	-	-
3.2.1.1. Forward foreign currency transactions-buy		-	-	-	-	-	-
3.2.1.2. Forward foreign currency transactions-sell		-	-	-	-	-	-
3.2.2. Swap transactions related to foreign currency and interest rates		25,606	25,470	51,076	17,446	17,659	35,105
3.2.2.1. Foreign currency swap-buy		-	25,470	25,470	-	17,659	17,659
3.2.2.2. Foreign currency swap-sell		25,606	-	25,606	17,446	-	17,446
3.2.2.3. Interest rate swaps-buy		-	-	-	-	-	-
3.2.2.4. Interest rate swaps-sell		-	-	-	-	-	-
3.2.3. Foreign currency, interest rate and security options		-	-	-	-	-	-
3.2.3.1. Foreign currency options-buy		-	-	-	-	-	-
3.2.3.2. Foreign currency options-sell		-	-	-	-	-	-
3.2.3.3. Interest rate options-buy		-	-	-	-	-	-
3.2.3.4. Interest rate options-sell		-	-	-	-	-	-
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		-	-	-	-	-	-
B. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)		1,064,289	2,224,642	3,288,931	1,029,994	2,131,831	3,161,825
IV. ITEMS HELD IN CUSTODY		289,429	2,143	291,572	262,637	1,867	264,504
4.1. Assets under management		-	-	-	-	-	-
4.2. Investment securities held in custody		-	-	-	-	-	-
4.3. Checks received for collection		288,504	2,143	290,647	261,832	1,867	263,699
4.4. Commercial notes received for collection		175	-	175	55	-	55
4.5. Other assets received for collection		-	-	-	-	-	-
4.6. Assets received for public offering		-	-	-	-	-	-
4.7. Other items under custody		750	-	750	750	-	750
4.8. Custodians		-	-	-	-	-	-
V. PLEDGED ITEMS		774,860	2,222,499	2,997,359	767,357	2,129,964	2,897,321
5.1. Marketable securities		-	-	-	-	-	-
5.2. Guarantee notes		89,486	145,830	235,316	94,487	144,873	239,360
5.3. Commodity		-	-	-	-	-	-
5.4. Warranty		-	-	-	-	-	-
5.5. Immovables		27,144	92,784	119,928	27,147	90,061	117,208
5.6. Other pledged items		658,230	1,983,885	2,642,115	645,723	1,895,030	2,540,753
5.7. Pledged items-depository		-	-	-	-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		-	-	-	-	-	-
TOTAL OFF BALANCE SHEET COMMITMENTS (A+B)		1,276,582	4,681,292	5,957,874	1,236,213	4,565,294	5,801,507

Arap Türk Bankası Anonim Şirketi

Consolidated Income Statement For The Period Ended 31 March 2017

(Thousands of Turkish Lira)

INCOME AND EXPENSES		Footnotes (5-IV)	Reviewed	Reviewed
			CURRENT PERIOD (01/01/2017-31/03/2017)	PRIOR PERIOD (01/01/2016-31/03/2016)
I.	INTEREST INCOME	(1)	59,315	60,589
1.1	Interest on loans		26,824	28,646
1.2	Interest received from reserve deposits		916	518
1.3	Interest received from banks		8,241	5,589
1.4	Interest received from money market transactions		22	-
1.5	Interest received from marketable securities portfolio		17,677	20,762
1.5.1	Financial assets held for trading		12,417	12,642
1.5.2	Financial assets valued at fair value through profit or loss		-	-
1.5.3	Financial assets available for sale		-	-
1.5.4	Investments held to maturity		5,260	8,120
1.6	Finance lease income		5,440	4,854
1.7	Other interest income		195	220
II.	INTEREST EXPENSE	(2)	14,227	9,366
2.1	Interest on deposits		12,270	7,808
2.2	Interest on funds borrowed		1,725	1,412
2.3	Interest on money market transactions		232	59
2.4	Interest on securities issued		-	-
2.5	Other interest expense		-	87
III.	NET INTEREST INCOME/EXPENSE (I - II)		45,088	51,223
IV.	NET FEES AND COMMISSIONS INCOME/EXPENSE		11,287	9,828
4.1	Fees and commissions received		11,556	10,025
4.1.1	Non-cash loans		5,701	5,215
4.1.2	Other	(11)	5,855	4,810
4.2	Fees and commissions paid		269	197
4.2.1	Non-cash loans		-	-
4.2.2	Other		269	197
V.	DIVIDEND INCOME		-	-
VI.	NET TRADING INCOME/EXPENSE	(3)	1,101	(355)
6.1	Profit/losses on trading account securities		-	-
6.2	Loss/Profit on derivative transactions		520	(5,176)
6.3	Foreign exchange profit/losses		581	4,821
VII.	OTHER OPERATING INCOME	(4)	491	573
VIII.	TOTAL OPERATING INCOME/EXPENSE (III+IV+V+VI+VII)		57,967	61,269
IX.	PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(5)	8,707	17,758
X.	OTHER OPERATING EXPENSES (-)	(6)	23,089	20,311
XI.	NET OPERATING INCOME/LOSS (VIII-IX-X)		26,171	23,200
XII.	INCOME RESULTED FROM MERGERS		-	-
XIII.	INCOME/LOSS FROM INVESTMENTS UNDER EQUITY ACCOUNTING		-	-
XIV.	GAIN/LOSS ON NET MONETARY POSITION		-	-
XV.	INCOME/LOSS FROM CONTINUING OPERATIONS BEFORE TAXES (XI+...+XIV)	(7)	26,171	23,200
XVI.	PROVISION FOR TAXES FOR CONTINUING OPERATIONS (±)		(5,428)	(5,979)
16.1.	Current tax provision	(8)	(4,270)	(6,767)
16.2.	Deferred tax provision		(1,158)	788
XVII.	NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(9)	20,743	17,221
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1.	Income from assets held for sale		-	-
18.2.	Income from sale of associates, subsidiaries and joint-ventures		-	-
18.3.	Other income from discontinued operations		-	-
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1.	Expense on assets held for sale		-	-
19.2.	Expenses on sale of associates, subsidiaries and joint-ventures		-	-
19.3.	Other expense from discontinued operations		-	-
XX.	INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-
XXI.	PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)		-	-
21.1.	Current tax provision		-	-
21.2.	Deferred tax provision		-	-
XXII.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-
XXIII.	NET PROFIT/LOSSES (XVII+XXII)		20,743	17,221
23.1	Group's profit/loss		20,743	17,221
23.2	Minority shares		-	-
	Earnings/Losses per share		0.0005	0.0004

SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. EXPLANATIONS FOR BASIS OF PRESENTATION

The consolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and other regulations related to reporting principles on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by Banking Regulation and Supervision Authority (together referred as BRSA Accounting and Reporting Legislation) and in case where a specific regulation is not made by BRSA, Turkish Accounting Standards and Turkish Financial Reporting Standards (“TFRS”) and related appendices and interpretations (referred as “Turkish Accounting Standards” or “TAS”) put into effect by Public Oversight Accounting and Auditing Standards Authority (“POA”) (all referred as “Reporting Standards”).

The format and content of the publicly announced consolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements”, published in Official Gazette no. 28337, dated 28 June 2012, and amendments to this Communiqué. The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation.

Consolidated financial statements other than financial assets and liabilities that are presented with fair values, are prepared in thousands of Turkish Lira and with cost value approach.

The preparation of consolidated financial statements requires the use of certain critical estimates on assets and liabilities reported as of balance sheet date or amount of contingent assets and liabilities explained and amount of income and expenses occurred in related period. Although these estimates rely on the management’s best judgment, actual results can vary from these estimates. Judgements and estimates are explained in related notes.

For a correct perception of the financial statements, the accounting policies and valuation principles are explained between in Notes No. II and XXIII.

There is not any different accounting policy applied while the preparation of the consolidated financial statements.

Explanation for convenience translation into English:

The differences between accounting principles, as described in these preceding paragraphs and accounting principles generally accepted in countries in which consolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in these consolidated financial statements. Accordingly, these consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

II. INFORMATION ON STRATEGY FOR THE USE OF FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

The Bank’s core business operation is banking activities including corporate banking, commercial banking, security transactions (treasury transactions) together with international banking services. The Parent Bank uses financial instruments intensively because of the nature of the Parent Bank. The main funding resources are deposits, borrowing and equity and these resources are invested in qualified financial assets. The Parent Bank follows the utilization of resources and the risk and return for the investments in various financial assets through an effective asset and liability management strategy.

The transactions in foreign currency are recorded in accordance with “TAS 21 - Effects of Exchange Rate Changes”. Related gain and loss occurred due to the changes in exchange rates resulted by the foreign currency transactions are translated into Turkish Lira over the effective exchange rate prevailing at the date of the transaction and is recorded accordingly.

At the end of the related periods, foreign currency assets and liability balances outstanding are translated into Turkish Lira over the Group’s exchange rates prevailing at the balance sheet date in the Parent Bank financial statements, whereas for other associations over CBRT rates subjected to evaluation.

III. INFORMATION ON CONSOLIDATED ASSOCIATES AND SUBSIDIARIES

The accompanying consolidated financial statements are prepared in accordance with "Communiqué on Preparation of Consolidated Financial Statements" which is published in the Official Gazette No. 26340 dated November 8, 2006. The Parent Bank directly owns the shares of A&T Finansal Kiralama A.Ş. and this subsidiary is consolidated accordingly. As of 31 March 2017 and 31 December 2016, the Parent Bank has no associates.

A&T Finansal Kiralama Anonim Şirketi, was founded in 1997 with the aim to provide financial leasing services.

The Parent Bank and its subsidiary A&T Finansal Kiralama A.Ş that is included in consolidation are together referred to as “Group” in the disclosures and footnotes related to the consolidated financial statements.

“Full Consolidation” method has been applied in consolidating the financial statements of the Bank with the financial statements of its subsidiary. In accordance with this method, the financial statements of the Parent Bank and its subsidiary are combined on a line-by-line basis by adding together the all items of assets, liabilities, income, expenses and off-balance sheet items, in preparing consolidated financial statements. Minority interests are presented separately in the consolidated balance sheet and consolidated statement of income.

The major principles applied in the consolidation of subsidiaries

The carrying amount of the Parent Bank’s net investment in the subsidiary and the Parent Bank’s portion of equity of the subsidiary are eliminated.

All intercompany transactions and intercompany balances between the consolidated subsidiary and the Parent Bank are eliminated.

The financial statements which have been used in the consolidation are prepared as of 31 March 2017 and appropriate adjustments are made to financial statements to use uniform accounting policies for similar transactions and events in similar circumstances.

IV. INFORMATION ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

The Group financial derivatives are classified as “held for trading” in accordance with “TAS - 39 Financial Instruments: Recognition and Measurement”.

Derivatives are initially recorded at their purchase costs and does not including the transaction costs. The notional amounts of derivative transactions are recorded in off-balance sheet accounts based on their contractual amounts.

The derivative transactions are measured at fair value subsequent to initial recognition and if the fair value of a derivative financial instrument is positive, it is disclosed under the main account fair values of financial assets through profit or loss” in trading derivative financial instruments and if the fair value difference is negative, it is disclosed under trading derivative financial liabilities.

Gains and losses arising from a change in fair value of trading derivatives after the re measurement are accounted in the income statement. The fair value of the derivative financial instruments is calculated using quoted market prices by using discounted cash flows model.

V. INFORMATION ON INTEREST INCOME AND EXPENSE

Interest income and expense are recognized according to the effective interest method based on accrual basis. Effective interest rate is the rate that discounts the expected cash flows of financial assets or liabilities during their lifetimes to their carrying values. Effective interest rate is calculated when a financial asset or a liability is initially recorded and is not modified thereafter.

The computation of effective interest rate comprises discounts and premiums, fees and commissions paid or received and transaction costs. Transaction costs are additional costs that are directly related to the acquisition, issuance or disposal of financial assets or liabilities.

In accordance with the related regulation, the accrued interest income on non-performing loans are reversed and subsequently recognized as interest income only when collected.

VI. INFORMATION ON FEES AND COMMISSION

Fees and commission received and paid are recognized according to either accrual basis of accounting or effective interest method depending on nature of fees and commission; incomes derived from agreements and asset purchases for third parties are recognized as income when realized.

VII. INFORMATION ON FINANCIAL ASSETS

The Group categorizes and records its financial assets as financial assets at fair value through profit or loss, financial assets available-for-sale, loans and receivables or financial assets held to maturity.

Financial assets except for measured at fair value through profit or loss are recognized initially with their transaction costs that are directly attributable to the acquisition or issue of the financial asset. Purchase and sale transactions of securities are accounted at settlement dates.

a. Financial Assets at Fair Value through Profit or Loss

This category has two sub categories: financial assets for trading purposes and those recorded as financial assets designated at fair value through profit or loss at their initial recognition.

Financial assets held for trading are part of a portfolio aiming to generate a profit from short term fluctuations in prices or dealer’s margin or in which a pattern of short term profit making exists.

Financial derivative instruments are classified as financial assets held for trading unless they are stated as for hedging purposes. Accounting of derivative financial assets is explained in IV of Section Three.

The financial assets held for trading are initially recognized at cost which includes transaction costs. Subsequent to the initial recognition financial assets held for trading are re-measured at their fair value. The gains and losses arising from the change in fair value are recognized in the income statement. The interest income earned from financial assets held for trading is recorded in the interest income and share profit is recorded in the dividends account.

b. Financial Assets Available-for-Sale

Financial assets available for sale are financial assets other than those classified as loans and receivables, financial assets held to maturity and financial assets at fair value through profit or loss.

Debt securities classified as financial assets available-for-sale are subsequently re-measured at their fair values. Unrealized gains and losses arising from changes in the fair value of securities classified as financial assets available for sale is reflected in the equity marketable securities value increase fund. When these financial assets available for sale are disposed of or collected the fair value differences accumulated under equity are transferred to the income statement.

VII. INFORMATION ON FINANCIAL ASSETS (Continued)

b. Financial Assets Available-for-Sale (Continued)

Financial assets available for sale that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Financial assets available for sale that do not have a quoted market price and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

c. Loans and Receivables

Loans and receivables are the financial assets raised by the Bank providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

Loans and receivables are recorded at cost and measured at amortized cost by using effective interest method. The duties paid, transaction expenditures and other similar expenses on assets received against such risks are considered as a part of transaction cost and charged to customers.

d. Financial Assets Held to Maturity

Held-to-maturity securities are financial assets that are not classified as loans and receivables with fixed maturities and pre-determinable payments that the Bank has the intent and ability to hold until maturity. The financial assets held to maturity are initially recognized at cost and subsequently carried at amortized cost using effective interest method with internal rate of return after deducting impairments, if any. Interest earned on financial assets held-to-maturity is recognized as interest income in the statement of income.

There are no financial assets that were previously classified as held to maturity but cannot be subject to this classification for two years due to the violation of the tainting rule.

VIII. INFORMATION ON IMPAIRMENT OF FINANCIAL ASSETS

Financial assets or group of financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the Group estimates the amount of impairment.

Impairment loss incurs if, and only if, there is objective evidence that the expected future cash flows of financial asset or group of financial assets are adversely affected by an event(s) (“loss event(s)”) incurred subsequent to recognition. The losses expected to incur due to future events are not recognized even if the probability of loss is high.

If there is an objective evidence that certain loans will not be collected, for such loans; the Group provides specific and general allowances for loan and other receivables classified in accordance with the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables” published on the Official Gazette no. 26333 dated 1 November 2006 and the amendments to this regulation. The allowances are recorded in the statement of income of the related period.

Provision in prior periods has been collected which is provisioned accounts are recorded under other operating income is deducted. Is collected which is provisioned in the same year, the impairment loss is deducted from loans and other receivables.

If there is objective evidence that certain leasing receivables will not be collected; the Group assess that receivables in accordance with the “Regulation on Identification of and Provision against Non-Performing Receivables of Financial Leasing, Factoring and Financing Companies” published on the Official Gazette No.26588 dated 20 July 2007.

IX. INFORMATION ON OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

X. INFORMATION ON SALE AND REPURCHASE AGREEMENTS AND LENDING OF FINANCIAL ASSETS

Repurchase (“repo”) and resale (“reverse repo”) agreements of financial assets are followed at the balance sheet accounts. Financial assets which are sold to customers under repurchase agreements are categorized according to initial classification and are measured in accordance with the accounting policy of the related portfolio.

Funds obtained under repurchase agreements are accounted under funds provided under repurchase agreements in liability accounts. The interest expense accruals are calculated by means of internal rate of return method over the difference resulting from repurchase and sale prices for the relevant period.

Securities subject to repurchase (“reverse repo”) agreements are reflected under receivables from reverse repurchase agreements. The difference between the purchase and resell price which is related with the period is computed with the effective interest rate method for accrued interest income.

XI. INFORMATION ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

An asset that is classified as held for sale (or to be discarded fixed assets) is measured with its book value or cost deducted fair value, depending on the lower one. An asset to be classified asset held for sale, particular asset (or to be discarded fixed assets) should be similar to these types of assets and should be able to be sold immediately with commonly accepted terms and conditions. Asset should be marketed in line with its fair value. For selling probability to be high, relevant management level should plan the sale and should finalize the plan by determining the buyers.

A discontinued operation is classified as the Group’s assets discarded or assets held for sales. Information on discontinued operations is presented separately in consolidated income statement. As at reporting date, the Group does not have any discontinued operations.

XII. INFORMATION ON GOODWILL AND OTHER INTANGIBLE ASSETS

There is no goodwill in the accompanying financial statements related to the acquisition of a subsidiary.

The Group’s intangible assets consist of software.

Intangible assets are initially recorded at their costs in compliance with the “TAS 38 - Intangible Assets”.

The costs of the intangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization. The useful life of software is determined as 3-15 years.

If there is objective evidence of impairment, the asset’s recoverable amount is estimated in accordance with the “TAS 36 - Impairment of Assets” and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

XIII. INFORMATION ON TANGIBLE ASSETS

The costs of the tangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. In subsequent periods no inflation adjustment is made for tangible assets, and costs which are restated as of 31 December 2004 are considered as their historical costs. Tangible assets purchased after 1 January 2005 are recorded at their historical costs after foreign exchange differences and financial expenses are deducted if any.

Beginning from the current year, the Bank has changed its accounting policies and has started to use revaluation method for the real estates that are held for own use. The positive valuation differences between the net book value of real estate property values and the expertise values which are determined by the licensed expertize companies are recognized under the equity.

Gains and losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sales price and recognized in the income statement of the period.

Maintenance and repair costs incurred for tangible assets are recorded as expense. Expenditures incurred that extend the useful life and service capacity of the assets are capitalized.

The depreciation rates used approximate the rates of the useful life of the tangible assets are as follows:

Tangible assets	Estimated useful life (Years)	Depreciation Rate (%)
Buildings	50	2
Motor vehicles	5	20
Office equipment, furniture and fixture	3-50	2-33

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

At each reporting date, the Bank evaluates whether there is objective evidence of impairment on its assets. If there is an objective evidence of impairment, the asset’s recoverable amount is estimated in accordance with the “TAS 36 - Impairment of Assets” and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

XIV. INFORMATION ON LEASING ACTIVITIES

Finance leasing activities as the lessee

Tangible assets acquired by way of 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 consolidated financial statements. In the determination of the related assets and liabilities, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs of leasing agreements are expanded in lease periods at a fixed interest rate.

If there is impairment in the value of the assets obtained through financial lease and in the expected future benefits, the leased assets are valued with net realizable value. Depreciation for assets obtained through financial lease is calculated in the same manner as tangible assets.

Interest and exchange rate expenses related to financial leasing are recognized in the income statement. The Group does not provide financial leasing services as a lessor.

XIV. INFORMATION ON LEASING ACTIVITIES (Continued)

Finance leasing activities as the lessor

The total of minimum rent amounts are recorded at “finance lease receivables” account in gross amounts comprising the principal amounts and interests. The interest, the difference between the total of rent amounts and the cost of the fixed assets, is recorded at “unearned income” account. As the rents are collected, “finance lease receivables” account is decreased by the rent amount; and the interest component is recorded at consolidated income statement as interest income.

Operational leases

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

Lease payments made under operational leases are recognized in the income statement over the lease term in equal installments.

XV. INFORMATION ON PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions and contingent liabilities are provided for in accordance with the “TAS 37 - Provisions, Contingent Liabilities and Contingent Assets”, except for the general and specific provisions set aside for the loans and other receivables.

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 obligation can be made.

A provision for contingent liabilities arising from past events should be recognized in the same period of occurrence if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate the amount of the obligation can be made.

XVI. INFORMATION ON LIABILITIES REGARDING EMPLOYEE BENEFITS

Reserve for employee termination benefits

In accordance with existing Turkish Labor Law, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or as mentioned in related legislation. The computation of the liability is based upon the retirement pay ceiling announced. The applicable ceiling amount as at 31 March 2017 is TL 4,426.16 (full TL) (31 December 2016: TL 4,297.21 (full TL)).

The Group reserved for employee severance indemnities in the accompanying consolidated financial statements using actuarial method in compliance with the updated TAS 19 - Employee Benefits. Accumulated all actuarial gains and losses in equity are recognized in retained earnings.

Other benefits to employees

The Group has provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the updated TAS 19 in the accompanying consolidated financial statements.

XVII. INFORMATION ON TAX APPLICATIONS

Corporate tax

The corporate tax rate is 20%. Corporate tax rate is calculated on the total income of the Group after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. The withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%.

In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The prepaid taxes are calculated and paid at the rates valid for the earnings of the related years. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

Tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. Tax losses cannot be carried back.

In Turkey, there is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of 25th of the fourth month following the close of the accounting period to which they relate. Tax declarations and related accounting entries can be investigated by tax authorities for five years from the beginning of the year that follows the date of filing during which time 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.

Deferred taxes

The Group calculates and accounts deferred tax assets and liabilities in accordance with the “TAS 12 - Income Taxes”; deferred tax assets and liabilities are recognized on all taxable temporary differences arising between the carrying values of assets and liabilities in the consolidated financial statements and their corresponding balances used for taxation purposes except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

If transactions and events are recorded in the statement of income, then the related tax effects are also recognized in the statement of income. However, if transactions and events are recorded directly in the shareholders’ equity, the related tax effects are also recognized directly in the shareholders’ equity.

The net amount of deferred tax receivables and deferred tax payables is shown on the financial tables.

XVII. INFORMATION ON TAX APPLICATIONS (Continued)

Transfer Pricing

In Turkey, the transfer pricing provisions has been stated under the Article 13 of Corporate Tax Law with the heading of “Disguised Profit Distribution via Transfer Pricing”. “The General Communiqué on disguised profit distribution via Transfer Pricing”, dated 18 November 2007 sets details about implementation.

If the companies enter into transactions concerning to the sale or the purchase of the goods or services with the related parties by setting the prices or amounts which are not in line with the arm’s length principle, related profits will be treated as having been wholly or partially distributed in a disguised way via transfer pricing. This kind of disguised profit distribution via transfer pricing cannot be deducted from tax base in accordance with corporate tax.

XVIII. ADDITIONAL INFORMATION ON BORROWINGS

Except for financial liabilities that are classified as held for trading derivatives which carried at fair values, all other financial liabilities are initially recognized at cost including transaction costs and re-measured at amortized cost using the effective interest rate method.

The Group did not issue any stocks convertible into bonds.

The Group does not have borrowing instruments issued by itself.

XIX. INFORMATION ON SHARE ISSUANCES

The Group has not issued any share in the current year.

XX. INFORMATION ON BILLS OF EXCHANGES AND ACCEPTANCES

Acceptances are realized simultaneously with the payment dates of the clients and they are presented as commitments in off-balance sheet accounts.

There are no acceptances presented as liabilities against any assets.

XXI. INFORMATION ON GOVERNMENT INCENTIVES

The Group has no government incentives.

XXII. INFORMATION ON SEGMENT REPORTING

Operating segment is the unit that operates in only one product or service of the Group or the group of products or services which are related each other and differs from other units from the point of risk and profit. Operating segments are presented in the footnote VIII of Fourth Section.

XXIII. OTHER DISCLOSURES

Profit reserves and profit distribution

Retained earnings as per the statutory consolidated financial statements other than legal reserves are available for distribution, subject to legal reserve requirement referred to below.

The legal reserves are comprised of first and second reserves, in accordance with the Turkish Commercial Code (“TCC”). The first legal reserve is appropriated out of the profits at the rate of 5% until the total reserve reaches a maximum of 20% of the Parent Bank’s paid in capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of the 5% of the Company’s share capital; however holding companies are not subject to this application. First and second legal reserves can only be used to compensate accumulated losses and cannot be used for profit distribution unless they exceed 50% of paid-in capital.

Related parties

In accompanying consolidated financial statements, shareholders, key management personnel and board members together with their families and companies controlled by or affiliated by them associated and jointly controlled entities are considered as Related Parties in compliance with “TAS 24 - Related Party Disclosures”. Related parties are presented VII footnote of Fifth Section.

Cash and cash equivalents

In the cash flows statements “Cash” refers to cash in vault, cash in transit, bank cheques purchased and demand deposits in banks including Central Bank of Turkey; “Cash equivalent” refers to money market placements and time deposits at banks which has original maturity less than three months.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

SECTION FOUR

INFORMATION ON THE CONSOLIDATED FINANCIAL POSITION OF THE GROUP

I. INFORMATION ON SHAREHOLDER’S EQUITY

	Amount	Amounts related to treatment before 1/1/2014⁽¹⁾
TIER II CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	758,542	
Share issue premiums	436,843	
Reserves	-	
Reserves	24,317	
Gains recognized in equity as per TAS	-	
Profit	213,458	
Current Period Profit	20,743	
Prior Period Profit	192,715	
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	761,094	
Deductions from Common Equity Tier 1 Capital	2,552	3,071
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	-	-
Improvement costs for operating leasing	474	474
Goodwill (net of related tax liability)	2,078	2,597
Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-
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	-	-
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	2,552	
Total Common Equity Tier 1 Capital	758,542	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

I. INFORMATION ON SHAREHOLDER’S EQUITY (Continued)

	Amount	Amounts related to treatment before 1/1/2014 ⁽¹⁾
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	519	-
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(-)	519	-
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	-	-
Total Additional Tier I Capital	-	-
Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)	758,023	-
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA		
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)		
Provisions (Article 8 of the Regulation on the Equity of Banks)	24,408	
Tier II Capital Before Deductions	24,408	
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 declared in Article 8.	-	-
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	24,408	
Total Capital (The sum of Tier I Capital and Tier II Capital)	782,431	
Deductions from Total Capital	782,431	
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law		-
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	6	
Other items to be defined by the BRSA (-)	-	
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components	-	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

I. INFORMATION ON SHAREHOLDER’S EQUITY (Continued)

	Amount	Amounts related to treatment before 1/1/2014 ⁽¹⁾
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	782,425	798,425
Total Capital	782,425	798,425
Total risk weighted amounts	3,877,260	3,877,260
Capital Adequacy Ratios		
Core Capital Adequacy Ratio (%)	19.56	-
Tier 1 Capital Adequacy Ratio (%)	19.55	-
Capital Adequacy Ratio (%)	20.18	20.59
BUFFERS		
Total buffer requirement	1.372	-
Capital conservation buffer requirement (%)	1.250	-
Bank specific counter-cyclical buffer requirement (%)	0.127	-
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	15.06	-
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	-	-
Amount arising from deferred tax assets based on temporary differences	-	-
Limits related to provisions considered in Tier II calculation	-	-
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	24,408	24,408
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	-	-
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 January 1, 2018 and January 1, 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	-	-

⁽¹⁾ The amounts of items in accordance with transition provisions

I. INFORMATION ON SHAREHOLDER’S EQUITY (Continued)

Informations on addition debt instruments to shareholders’ equity calculating	Current Period
Exporter	-
Code of debt instrument (CUSIP, ISIN etc.)	-
Legislation of debt instrument	-
Attention Situation of Shareholders’ Equity	
Situation of subjection to practice of being taken into consideration with 10% deduction (after 1.1.2015)	-
Validity situation of consolidated or unconsolidated based or consolidated and unconsolidated based.	-
Type of debt instrument	-
Considered amount of shareholders’ equity calculation. (By last report date of – Million TL)	-
Nominal value of debt instrument (Million TL)	-
Related account of debt instrument	-
Export date of debt instrument	-
Maturity structure of debt instrument (demand/term)	-
Beginning term of debt instrument	-
Whether there is right of reimbursement of exporter or not according to Banking Regulation and Supervision Agency (BRSA) rules.	-
Optional reimbursement date, options of conditional reimbursement and reimbursement amount.	-
Following reimbursement option dates	-
Interest/Dividend Payments	
Fixed or floating interest/dividend payments	-
Interest rate and index value of interest rate	-
Whether there is any restriction to stop payment of capital bonus or not	-
Feature of being full optional, partially optional or obligatory	-
Whether there is any stimulant to repayment like interest rate hike or not	-
Feature of being cumulative or noncumulative	-
Feature of being convertible bonds	
If there’s convertible bonds, trigger incidents cause this conversion	-
If there’s convertible bonds, feature of full or partially conversion	-
If there’s convertible bonds, rate of conversion	-
If there’s convertible bonds, feature of conversion -obligatory or optional-	-
If there’s convertible bonds, types of convertible instruments	-
If there’s convertible bonds, exporter of convertible debt instruments	-
Feature of value reduction	
If there is feature of value reduction, trigger incidents cause this value reduction	-
If there is feature of value reduction, feature of full or partially reduction of value	-
If there is feature of value reduction, feature of being constant or temporary	-
If the value can be reduced temporarily, mechanism of value incrementation	-
Claiming rank in case of winding up (Instrument that is just above debt instrument)	-
Whether being provided with conditions of the 7 th and 8 th articles of Shareholders’ Equity of Banks Regulation	-
Has or has not been provided with which conditions of the 7 th and 8 th articles of Shareholders’ Equity of Banks Regulation	-

The Parent Bank’s internal capital requirements within the scope of the internal capital adequacy assessment process in order to evaluate the adequacy of the approach in terms of current and future activities

The Parent Bank has procedures and reports under the name of internal capital assessment process. In order to assess the capital adequacy of the 2017, the Parent Bank analyze the legal ratios and budget expectations to qualitate them for the effect on the legal capital adequacy and economic capital of the Parent Bank. With these procedures and reports the Parent Bank covers all risk in capital adequacy requirements.

II. INFORMATION ON CONSOLIDATED FOREIGN CURRENCY EXCHANGE RATE RISK

Whether the Group is exposed to foreign exchange risk, whether the effects of this situation are estimated, and whether the board of directors of the Bank sets limits for positions that are monitored daily

The Group complies with net general position-shareholders’ equity limits. The Bank has the possibility to borrow a significant amount of foreign currency. Within the context of the market risk management work of the Risk Management Department, the Parent Bank’s Exchange rate risk is calculated and analyzed taking different dimensions of the issue in consideration. The Exchange rate risk is measured according to market risk calculated using the Standard Method and is included in the capital adequacy ratio. For testing effects of the unexpected exchange rate fluctuations on the Parent Bank monthly basis stress test analysis are done. In addition, by classifying the changes in risk factors different scenario analysis are done based on different exchange rate expectations. The sensitivity of assets, liabilities and off-balance sheets against exchange rate are measured by an analysis on a monthly basis.

The magnitude of hedging foreign currency debt instruments and net foreign currency investments by using hedging derivatives

The Group does not have any financial derivatives used for hedging.

Foreign exchange risk management policy

Transactions are being hedged according to the Central Bank of Turkey’s basket of currencies instantly. Manageable and measurable risks are taken in the scope of the regulatory limits.

Foreign exchange buying rates of the last five business days before the balance sheet date as publicly announced by the Parent Bank are as follows

Date	US Dollars	EUR
24 March 2017	TL 3.6134	TL 3.8973
27 March 2017	TL 3.6185	TL 3.9051
28 March 2017	TL 3.5931	TL 3.9045
29 March 2017	TL 3.6186	TL 3.9283
30 March 2017	TL 3.6416	TL 3.9268
31 March 2017	TL 3.6386	TL 3.9083

The basic arithmetical average of the Parent Bank’s foreign exchange bid rate for the last thirty days

The basic arithmetical average of the Parent Bank’s foreign exchange bid rate for March 2017 is TL 3.6695 for USD and TL 3.9162 for EUR.

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II. INFORMATION ON CONSOLIDATED FOREIGN CURRENCY EXCHANGE RATE RISK (Continued)**Information on currency risk of the Group**

Current Period	Euro	US Dollars	Other	Total
Assets				
Cash (Cash in Vault, Foreign currencies, Cash in Transit, Cheques Purchased) and Balances with the Central Bank of Turkey	496,864	565,306	155	1,062,325
Banks	675,055	588,009	8,589	1,271,653
Financial Assets through Profit or Loss	174,637	276,227	-	450,864
Interbank Money Market Placements	-	-	-	-
Investment Securities Available-for-Sale	90	1,365	-	1,455
Loans ⁽¹⁾	556,794	243,503	-	800,297
Investments in Subsidiaries and Associates	-	-	-	-
Investment Securities Held-to-Maturity	149,836	235,088	-	384,924
Financial Derivative held for Hedging (Assets)	-	-	-	-
Tangible Assets	-	-	-	-
Intangible Assets	-	-	-	-
Other Assets	178,559	39,159	-	217,718
Total Assets	2,231,835	1,948,657	8,744	4,189,236
Liabilities				
Bank Deposits	1,816,046	1,555,180	3,514	3,374,740
Foreign Currency Deposits	222,330	276,894	4,400	503,624
Money Market Borrowings	-	-	-	-
Funds Borrowed from Other Financial Institutions	180,931	134,991	-	315,922
Marketable Securities Issued	-	-	-	-
Miscellaneous Payables	4,951	2,208	6	7,165
Financial Derivatives held for Hedging (Liabilities)	-	-	-	-
Other Liabilities	3,136	8,102	166	11,404
Total Liabilities	2,227,394	1,977,375	8,086	4,212,855
Net Balance Sheet Position	4,441	(28,718)	658	(23,619)
Net Off Balance Sheet Position	-	25,470	-	25,470
Financial Derivatives (Assets)	-	25,470	-	25,470
Financial Derivatives (Liabilities)	-	-	-	-
Non-Cash Loans	801,793	1,089,109	512,693	2,403,595
Prior Period				
Total Assets	2,568,922	1,672,656	11,897	4,253,475
Total Liabilities	2,564,892	1,693,882	4,184	4,262,958
Balance Sheet Position, net	4,030	(21,226)	7,713	(9,483)
Off Balance Sheet Position, net	(8,385)	20,141	88	11,844
Financial Derivatives (Assets)	-	20,229	88	20,317
Financial Derivatives (Liabilities)	(8,385)	(88)	-	(8,473)
Non-cash Loans	703,810	1,162,720	486,938	2,353,468

⁽¹⁾ As of 31 March 2017 loan balance includes foreign currency indexed loans amounting to TL 70,995 (31 December 2016: TL 47,849).

II. INFORMATION ON CONSOLIDATED FOREIGN CURRENCY EXCHANGE RATE RISK (Continued)**Exposed currency risk**

The possible increases or decreases in the shareholders’ equity and the profit/loss as per an assumption of devaluation/appreciation by 10% of TL against currencies mentioned below as of 31 March 2017 and 31 December 2016 are presented in the below table. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

Assuming 10% appreciation of TL;

	Current Period		Prior Period	
	Income Statement	Shareholder’s Equity ⁽¹⁾	Income Statement	Shareholder’s Equity ⁽¹⁾
Euro	(444)	(444)	436	436
US Dollar	325	325	109	109
Other Currencies	(66)	(66)	(780)	(780)
Total	(185)	(185)	(235)	(235)

⁽¹⁾ The effect on shareholders’ equity also includes the effect on the profit/loss.

Assuming 10% depreciation of TL;

	Current Period		Prior Period	
	Income Statement	Shareholder’s Equity ⁽¹⁾	Income Statement	Shareholder’s Equity ⁽¹⁾
Euro	444	444	(436)	(436)
US Dollar	(325)	(325)	(109)	(109)
Other Currencies	66	66	780	780
Total	185	185	235	235

⁽¹⁾ The effect on shareholders’ equity also includes the effect on the profit/loss.

III. INFORMATION ON CONSOLIDATED INTEREST RATE RISK**Interest rate sensitivity of the assets, liabilities and off-balance sheet items**

Within the context of the market risk management of the Risk Management Department, the Parent Bank’s interest rate risk is calculated and analyzed taking different dimensions of the issue in consideration. The interest rate risk is measured according to market risk calculated using the standard method and is included in the capital adequacy ratio. To test the effect of the interest rate fluctuations on the Parent Bank monthly based stress test analysis are done.

In addition, by classifying the changes in risk factors different scenario analysis are done based on different interest rate expectations. The sensitivity of assets, liabilities and off-balance sheets against interest rate are measured by an analysis on a monthly basis.

The expected effects of the fluctuations of market interest rates on the Parent Bank’s financial position and cash flows, the expectations for interest income, and the limits the board of directors has established on daily interest rates

The Board of Directors has determined limits for the amount exposed to market risk/ shareholders’ equity, to be maximum 45% for the early warning limit, 50% for limit maximum, and maximum 55% for limit exception in order to follow interest rate risk, exchange rate risk and equity price risk.

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III. INFORMATION ON CONSOLIDATED INTEREST RATE RISK (Continued)

The precautions taken for the interest rate risk the Parent Bank was exposed to during the current year and their expected effects on net income and shareholders’ equity in the future periods

Although the increase in interest rates has a limited negative effect on the Parent Bank’s financial position, the Parent Bank’s Equity structure is able to confront the negative effects of possible fluctuations in the interest rates.

Information related to interest rate sensitivity of assets, liabilities and off-balance sheet items (based on re-pricing dates)

Current Period	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, foreign currencies, cash in transit, cheques purchased) and balances with the Central Bank of Turkey	567,049	-	-	-	-	501,115	1,068,164
Banks	1,097,682	205,838	-	-	-	3,462	1,306,982
Financial assets at fair value through Profit or Loss	-	31,992	145,874	292,275	-	-	470,141
Interbank Money Market Placements	-	-	-	-	-	-	-
Financial assets available-for-sale	-	-	-	-	-	1,679	1,679
Loans	656,746	314,999	385,500	58,527	47,325	2,132	1,465,229
Investment securities held-to-maturity	2,400	58,845	39,800	293,109	17,694	-	411,848
Other assets ⁽¹⁾	26,185	15,631	76,663	154,662	-	145,856	418,997
Total assets	2,350,062	627,305	647,837	798,573	65,019	654,244	5,143,040
Liabilities							
Bank deposits	1,673,532	262,173	1,469,934	-	-	92	3,405,731
Other deposits	37,892	11,178	32,147	-	-	451,904	533,121
Money market borrowings	20,005	-	-	-	-	-	20,005
Miscellaneous payables	-	-	-	-	-	9,457	9,457
Marketable securities issued	-	-	-	-	-	-	-
Funds Borrowed From Other Fin. Ins.	14,857	154,171	56,528	90,972	-	-	316,528
Other liabilities ⁽²⁾	23	-	-	-	-	858,175	858,198
Total liabilities	1,746,309	427,522	1,558,609	90,972	-	1,319,628	5,143,040
Long Position in the Balance Sheet	603,753	199,783	-	707,601	65,019	-	1,576,156
Short Position in the Balance Sheet	-	-	(910,772)	-	-	(665,384)	(1,576,156)
Long Position in the Off-balance Sheet	25,470	-	-	-	-	-	25,470
Short Position in the Off-balance Sheet	(25,606)	-	-	-	-	-	(25,606)
Total Position	603,617	199,783	(910,772)	707,601	65,019	(665,384)	(136)

⁽¹⁾ Other Assets: The amount of TL 145,856 in the Non-Interest Bearing column includes; Tangible Assets amounting TL 116,668, Intangible Assets amounting to TL 2,597, Deferred Tax Assets amounting to TL 144, Assets Held for Sale amounting to TL 6 and Non-Interest Bearing amount of Other Assets amounting to TL 26,441.

⁽²⁾ Other Liabilities: The amount of TL 858,175 in the Non-Interest Bearing Column includes; Shareholders Equity amounting to TL 761,094, Provisions amounting to TL 56,670, Tax, Duty and Premium Payable amounting to TL 12,025 and Non-Interest Bearing amount of Other Foreign Resources amounting to TL 28,386.

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III. INFORMATION ON CONSOLIDATED INTEREST RATE RISK (Continued)

Prior Period	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, foreign currencies, cash in transit, cheques purchased) and Balances with the Central Bank of Turkey	403,429	-	-	-	-	577,654	981,083
Banks	1,216,817	167,603	11,115	-	-	16,854	1,412,389
Financial assets at fair value through profit or loss	368	120,949	139,324	290,176	-	-	550,817
Interbank money market placements	-	-	-	-	-	-	-
Investment securities available-for-sale	-	-	-	-	-	1,634	1,634
Loans	601,728	421,793	253,705	100,024	45,746	4,300	1,427,296
Investment securities held-to-maturity	2,054	59,682	48,344	272,288	17,175	-	399,543
Other assets ⁽¹⁾	44,167	19,992	72,691	143,303	-	45,872	326,025
Total Asset	2,268,563	790,019	525,179	805,791	62,921	646,314	5,098,787
Liabilities							
Bank deposits	1,881,979	348,332	603,889	706,546	-	-	3,540,746
Other deposits	26,664	10,746	31,097	-	-	483,204	551,711
Money market borrowings	3,495	-	-	-	-	-	3,495
Miscellaneous payables	-	-	-	-	-	30,539	30,539
Marketable securities issued	-	-	-	-	-	-	-
Funds Borrowed From Other Fin. Ins.	37,662	127,426	29,132	44,415	-	-	238,635
Other liabilities ⁽²⁾	-	-	-	-	-	733,661	733,661
Total Liabilities	1,949,800	486,504	664,118	750,961	-	1,247,404	5,098,787
Balance Sheet Long Position	318,763	303,515	-	54,830	62,921	-	740,029
Balance Sheet Short Position	-	-	(138,939)	-	-	(601,090)	(740,029)
Off Balance Sheet Long Position	-	17,659	-	-	-	-	17,659
Off Balance Sheet Short Position	-	(17,446)	-	-	-	-	(17,446)
Total Position	318,763	303,728	(138,939)	54,830	62,921	(601,090)	213

(1) Other Assets: The amount of TL 45,872 in the Non-Interest Bearing column includes; Tangible Assets amounting TL 22,862, Intangible Assets amounting to TL 2,746, Deferred Tax Assets amounting to TL 4,626, Assets Held for Sale amounting to TL 8, Other Assets amounting to TL 15,630.

(2) Other Liabilities: The amount of TL 733,661 in the Non-Interest Bearing Column includes; Shareholders Equity amounting to TL 654,089, Provisions amounting to TL 56,060, Tax, Duty and Premium Payable amounting to TL 11,147 and Other Foreign Resources amounting to TL 12,365.

III. INFORMATION ON CONSOLIDATED INTEREST RATE RISK (Continued)**Average interest rates applied to monetary financial instruments (%)**

Current Period	EURO	USD	YEN	TL
Assets				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of Turkey	-	0.57	-	3.47
Banks	1.74	2.70	-	12.70
Financial assets at fair value through profit or loss	-	-	-	-
Money market placement	-	-	-	-
Financial assets available-for-sale	-	-	-	-
Loans	2.97	4.20	-	13.09
Investment securities held-to-maturity	-	-	-	11.32
Financial Lease Receivables	6.49	7.20	-	14.82
Liabilities				
Interbank deposits	0.78	2.49	-	11.75
Other deposits	1.19	2.02	-	8.85
Money market borrowings	-	-	-	9.25
Miscellaneous payables	-	-	-	-
Marketable securities issued	-	-	-	-
Funds borrowed from other financial institutions	2.41	3.58	-	6.69
Prior Period				
Assets				
Cash (cash in vault, effectives, money in transit, cheques purchased) and balances with the Central Bank of Turkey	-	0.49	-	3.36
Banks	2.05	2.83	-	11.48
Financial assets at fair value through profit or loss	1.57	3.88	-	-
Money market placement	-	-	-	-
Financial assets available-for-sale	-	-	-	-
Loans	3.23	4.05	-	11.88
Investment securities held-to-maturity	2.80	5.79	-	10.03
Financial Lease Receivables	6.49	7.36	-	14.84
Liabilities				
Interbank deposits	0.72	2.60	-	6.13
Other deposits	0.91	1.93	-	8.63
Money market borrowings	-	-	-	8.00
Miscellaneous payables	-	-	-	-
Marketable securities issued	-	-	-	-
Funds borrowed from other financial institutions	2.45	4.04	-	6.72

IV. INFORMATION ON STOCK POSITION RISK**Equity investment risk due from banking book**

The Parent Bank does not have equity investment risk due to subsidiary and securities issued capital which classified banking accounts are not traded on the stock exchange.

Information on booking value, fair value and market value of equity investments

None.

Information on equity investments realized gains or losses, revaluation increases and unrealized gains or losses and these amounts including capital contribution

None.

Information on equity investments realized gains or losses, revaluation increases and unrealized gains or losses and these amounts including capital contribution

None.

IV. INFORMATION ON STOCK POSITION RISK (Continued)

Breakdown of the amount of capital requirements on investments in related stock exchange basis, depending on the Credit Risk Standard Method or the capital requirement calculation method which bank has chosen out of allowed methods stated in the Communiqué Regarding Calculation of Credit Risk Amount on Internal Rating Based Approach.

None.

V. CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

Information on liquidity risk management regarding risk capacity of the Parent Bank, responsibilities and structure of the liquidity risk management, reporting of the liquidity risk in the Parent Bank, the way that sharing liquidity risk strategy, policy and implementations with the board of directors and job fields.

Evaluation of capacity of liquidity risk position of the Parent Bank depends on current liquidity position, current and estimated asset quality, current and future income capacity, historical funding needs, estimated funding needs and decreasing funding needs or analysis of decrease in additional funding choices. One or more actions below are done to find funds in order to maintain liquidity needs.

- Disposal of the liquid assets
- Maintain increasing short term debts and/or additional short term time deposit and deposit like assets
- Decrease in moveable long term assets
- Increase in long term liabilities
- Increase in equity funds

Responsibility of the management of general liquidity belongs to Top Level Management, Treasury Department or Asset/Liability Committee (“ALCO”) which is consisting of Risk Management executives. Appropriate controls and balances are maintained in every condition.

Analysis of effects of various stress scenarios on the liquidity position and establishment of limits are crucial in order to establish effective liquidity risk management. Limits are determined according to the size of the Bank, complexity of transactions and suitability of the financial conditions.

One of the important components of liquidity management is management information system which is created to offer information about the liquidity position of the Parent Bank to the Board of Directors, top level management and related appropriate personnel at the right time. Strong management information system is an integral part of the reliable decision making process of the liquidity.

One of the important aspects of liquidity management is making assumptions on prospective funding needs. Although final cash inflows and outflows can be easily calculated or estimated, the Parent Bank also makes short-term and long-term assumptions.

Management also has an emergency plan to be implemented in the absence of accurate projections. An effective emergency planning consists of identifying minimum and maximum liquidity needs and weighting alternatives that will be used to meet these needs.

V. CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

The degree of centralization of liquidity management and funding strategy and information about the functioning between the Parent Bank and its shareholders

The Parent Bank is supported by well-established shareholders among most powerful financial institutions in Turkey, Middle East and the North African region. The Parent Bank’s largest shareholder is Libyan Foreign Bank which is 100% owned by the Central Bank of Libya and has an asset value more than 18 billion USD. Funds received from the main shareholder Libyan Foreign Bank correspond to 33% of total liabilities. On the other hand, funds received from the Bank’s risk group have a 59% share in liabilities.

Information on the Parent Bank’s funding strategy including the policies regarding diversification of funding sources and periods

The Parent Bank obtains its fund sources mainly from the parent Libyan Foreign Bank and its subsidiaries. These Funds are reliable sources which are ongoing for many years with renewing terms and expected to continue thereafter.

Currencies constituting minimum five percent of the Bank’s total liabilities

A large portion of the Parent Bank’s liabilities consist of funds obtained from the parent Libyan Foreign Bank and group banks. 55% of these funds are USD and 44% are Euro.

Information regarding to the liquidity risk mitigation techniques used

The Parent Bank’s liquidity risk mitigation techniques are retention of high-quality liquid assets on hand, provide maturity match between assets and liabilities and having the option to obtain funds from different banks in its risk groups.

Information regarding to the usage of Stress Tests

Stress tests are applied by changing the percentage of the parameters regarding to the liquidity ratio calculation. Subjected components, particularly high-quality liquid assets, including cash inflows and cash outflows are increased and decreased at various rates to measure the effects on the calculation. The test results provide guidance on liquidity management.

General information on the emergency and contingency plan of Liquidity

The Liquidity Emergency Action Plan prepared by the Parent Bank’s ALCO was presented to the Board of Directors and approved by Council Decision No. 4/267/8/12 at 27 July 2012. Decisions on the plan;

- The Parent Bank-specific crisis and general market crisis has been described,
- The decision of proportional and structural changes of assets and liabilities in the balance sheet is delegated to ALCO,
- Agreed that the Liquidity Dashboard which includes available and accessible liquidity sources of the Parent Bank, asset sales, loan repayments and liquidity usage submitted periodically to ALCO by the Treasury Department.
- Within the framework of an effective liquidity risk management of the Treasury Department, where necessary, acting jointly with other business units to avoid concentration of funding sources, following different funding options and current trends and reporting on costs is expressed,
- If necessary, making changes in the Emergency Action Plan and update it according to market conditions and balance sheet structure is delegated to ALCO.

V. CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)**Liquidity coverage ratio**

In accordance with the “Regulation on calculation of Bank’s liquidity coverage ratio”, published in Official Gazette no. 28948, dated 21 March 2014, liquidity coverage ratio is calculated which disclosed to the public in the following format . The monthly simple arithmetic average calculated consolidated liquidity coverage ratio of the last three months average, the weekly simple arithmetic average calculated liquidity coverage ratio of the last three months average.

Lowest and highest values for the last three months including the reporting period of consolidated foreign currency and total liquidity coverage ratio by months are as following:

	Month	FC	FC+TL
Lowest	January	79	100
Highest	February	85	106

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V. CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

The monthly simple arithmetic average calculated consolidated liquidity coverage ratio of the last three months average is as following.

Current Period	Consideration Ratio Not Applied Total Value ⁽¹⁾		Consideration Ratio Applied Total Value ⁽¹⁾	
	LC+FC	FC	LC+FC	FC
HIGH QUALITY LIQUID ASSETS				
1 High quality liquid assets	1,807,671	1,792,965	1,445,639	1,430,933
CASH OUTFLOWS				
2 Real person deposits and retail deposits	274,713	259,340	23,235	25,934
3 Stable deposit	84,720	-	4,236	-
4 Deposit with low stability	189,993	259,340	18,999	25,934
5 Unsecured debts except real person deposits and retail deposits	3,222,480	3,097,563	2,947,073	2,832,810
6 Operational deposit	-	-	-	-
7 Non-operating deposits	3,109,501	3,068,557	2,834,094	2,803,804
8 Other unsecured debts	112,979	29,006	112,979	29,006
9 Secured debts	36,697	-	-	-
10 Other cash outflows	2,714,971	2,528,494	155,172	130,194
11 Derivative liabilities and margin obligations	82	82	82	82
12 Debt from structured financial instruments	-	-	-	-
13 Other off-balance sheet liabilities and commitments for the payment owed to financial markets	-	-	-	-
14 Revocable off-balance sheet obligations regardless of any other requirement and other contractual obligations	-	-	-	-
15 Other irrevocable or provisory revocable off-balance sheet liabilities	2,714,889	2,528,412	155,090	130,112
16 TOTAL CASH OUTFLOW	6,248,861	5,885,397	3,125,480	2,988,938
CASH INFLOWS				
17 Secured receivables	-	-	-	-
18 Unsecured claims	1,888,277	1,259,209	1,723,550	1,238,286
19 Other cash inflows	2,067	2,067	2,067	2,067
20 TOTAL CASH INFLOWS	1,890,344	1,261,276	1,725,617	1,240,353
				Upper limit applied amounts
21 TOTAL HQLA STOCK			1,445,639	1,430,933
22 TOTAL NET CASH OUTFLOWS			1,399,863	1,748,585
23 LIQUIDITY COVERAGE RATIO (%)			103.27	81.83

⁽¹⁾ The monthly simple arithmetic average calculated consolidated liquidity coverage ratio of the last three months average, the weekly simple arithmetic average calculated liquidity coverage ratio of the last three months average

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V. CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Prior Period	Consideration Ratio Not Applied Total Value		Consideration Ratio Applied Total Value	
	LC+FC	FC	LC+FC	FC
HIGH QUALITY LIQUID ASSETS				
1 High quality liquid assets	1,651,075	1,630,296	1,302,802	1,282,022
CASH OUTFLOWS				
2 Real person deposits and retail deposits	262,580	247,283	22,461	24,728
3 Stable deposit	75,947	-	3,797	-
4 Deposit with low stability	186,633	247,283	18,664	24,728
5 Unsecured debts except real person deposits and retail deposits	3,133,171	2,936,925	2,856,821	2,700,350
6 Operational deposit	-	-	-	-
7 Non-operating deposits	3,020,547	2,905,973	2,744,197	2,669,398
8 Other unsecured debts	112,624	30,952	112,624	30,952
9 Secured debts	8,406	-	-	-
10 Other cash outflows	2,477,658	2,289,828	145,392	120,928
11 Derivative liabilities and margin obligations	34	34	34	34
12 Debt from structured financial instruments	-	-	-	-
13 Other off-balance sheet liabilities and commitments for the payment owed to financial markets	-	-	-	-
14 Revocable off-balance sheet obligations regardless of any other requirement and other contractual obligations	-	-	-	-
15 Other irrevocable or provisory revocable off-balance sheet liabilities	2,477,624	2,289,794	145,358	120,894
16 TOTAL CASH OUTFLOW	5,881,815	5,474,036	3,024,674	2,846,006
CASH INFLOWS				
17 Secured receivables	-	-	-	-
18 Unsecured claims	1,719,371	1,136,061	1,520,986	1,107,468
19 Other cash inflows	9,168	908	9,168	908
20 TOTAL CASH INFLOWS	1,728,539	1,136,969	1,530,154	1,108,376
				Upper limit applied amounts
21 TOTAL HQLA STOCK			1,302,802	1,282,022
22 TOTAL NET CASH OUTFLOWS			1,494,519	1,737,630
23 LIQUIDITY COVERAGE RATIO (%)			87.17	73.78

V. CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Important factors affecting the liquidity coverage ratio results and the change over time of those items taken into account while calculating this ratio

High-quality liquid assets and cash outflows are one of the most important factors affecting the calculation of the liquidity coverage ratio for banks. A major portion of high-quality liquid assets of the Parent Bank are consisted of treasury bills and free deposits held in CBRT. High-quality liquid assets been on the rise throughout the year had a positive effect on the calculation of liquidity coverage ratio.

Sections High-quality liquid assets comprised of

High-quality liquid assets consist of cash, effectives, debt instruments issued by CBRT and treasury, debt instruments with a credit or default rating from A+ to BBB- or any equivalent Debt Instruments. CBRT accounts for 61% of high-quality liquid assets of the Parent Bank, while 38% comprised of debt instruments issued by the Treasury.

Sections Funding sources comprised of and their densities within all funds

A significant part of the funding sources are comprised of deposits received. 77% of the total liabilities are deposits received. 86% of these deposits are deposits obtained from banks.

Cash outflows arising from Derivative Transactions and information about margin possible transactions

Bank has TL 82 thousand cash inflows arising from derivative transactions.

Counterparty and product-based funding sources and concentration limits on collaterals

A significant part of the funding sources are comprised of deposits received. 77% of the liability is deposits and 86% of these deposits are from banks. All of these liabilities are warrantless.

Funding needs in terms of the Bank itself, foreign branches and consolidated subsidiaries taking into account operational and legal factors that inhibits the Parent Bank’s liquidity transfer and liquidity risk exposure

The Parent Bank obtains funds essentially from main shareholder Libyan Foreign Bank and its subsidiaries. These reliable and ongoing funds are renewed at different maturities and expected to continue for many years.

Other cash inflows and outflows that are included in liquidity coverage calculation but not included in the public disclosure template in the second paragraph and considered to be related with the Bank’s liquidity profile

None.

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V. CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (Continued)

Presentation of assets and liabilities based on their outstanding maturities

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Year and Over	Unallocated	Total
Assets								
Cash (cash in vault, effectives, money in transit, cheques purchased) and Central Bank balances	7,808	1,060,356	-	-	-	-	-	1,068,164
Banks	34,532	1,066,611	205,839	-	-	-	-	1,306,982
Financial Assets at Fair Value through Profit or Loss	-	-	31,992	145,874	292,275	-	-	470,141
Money Market Placements	-	-	-	-	-	-	-	-
Financial assets available-for-sale	-	-	-	-	-	-	1,679	1,679
Loans	-	656,746	285,236	417,395	58,527	47,325	-	1,465,229
Investment securities held-to-maturity	-	2,400	24,683	73,964	293,107	17,694	-	411,848
Other assets ⁽¹⁾	-	26,185	15,815	75,706	155,435	-	145,856	418,997
Total Assets	42,340	2,812,298	563,565	712,939	799,344	65,019	147,535	5,143,040
Liabilities								
Interbank Deposits	811,462	862,162	262,173	1,469,934	-	-	-	3,405,731
Other Deposits	451,904	37,892	11,178	32,147	-	-	-	533,121
Funds provided from other financial institutions	-	8,197	22,938	51,331	234,062	-	-	316,528
Money market borrowings	-	20,005	-	-	-	-	-	20,005
Marketable securities issued	-	-	-	-	-	-	-	-
Miscellaneous payables	-	-	-	-	-	-	9,457	9,457
Other liabilities ⁽²⁾	-	3,500	4,416	-	-	-	850,282	858,198
Total Liabilities	1,263,366	931,756	300,705	1,553,412	234,062	-	859,739	5,143,040
Liquidity Gap	(1,221,026)	1,880,542	262,860	(840,473)	565,282	65,019	(712,204)	-
Prior Period								
Total Assets	114,105	2,752,446	729,615	588,594	803,600	62,921	47,506	5,098,787
Total Liabilities	1,344,895	1,078,828	368,388	667,828	885,747	-	753,101	5,098,787
Net Liquidity Gap	(1,230,790)	1,673,618	361,227	(79,234)	(82,147)	62,921	(705,595)	-

⁽¹⁾ Other assets amounting TL 145,856 at the undistributed part; Tangible Assets amounting TL 116,668, Intangible Assets amounting TL 2,597, Deferred Tax Asset amounting TL 144, Asset Held for Sale amounting TL 6 and Unallocated amount of Other Assets amounting to TL 26,441.

⁽²⁾ Other liabilities amounting TL 850,282 at the undistributed part consists of Shareholders Equity amounting TL 761,094, Provisions amounting TL 56,060 and Unallocated amount of Other Foreign Resources TL 32,518.

VI. INFORMATION ON LEVERAGE RATIO**Information on matters that create difference between current and previous period leverage ratio**

The main factors which cause the difference between periods are core capital and total risk amounts, no significant change occurred regarding portfolio structure.

Summarized comparative table of total asset amount in financial statements which is prepared according to TAS and total risk amount

	Prior Period⁽²⁾	Current Period⁽²⁾
Total asset amount in financial statements which is prepared according to TAS ⁽¹⁾	3,214	3,096
Difference between total asset amount in financial statements which is prepared according to TAS and Communiqué on Preparation of Financial Statements of Banks	-	-
Difference between derivative instruments and credit derivatives amount which is prepared according to Communiqué on Preparation of Consolidated Financial Statements of Banks and risk amount	49,754	53,280
Difference between Security or secured financing transactions amount which is prepared according to Communiqué on Preparation of Consolidated Financial Statements of Banks and risk amount	271,749	310,578
Difference between off-balance sheet transactions amount which is prepared according to Communiqué on Preparation of Consolidated Financial Statements of Banks and risk amount	71,377	81,001
Difference between amount which is prepared according to Communiqué on Preparation of Consolidated Financial Statements of Banks and risk amount	-	-
Total risk amount	396,094	447,955

⁽¹⁾ Related amounts are calculated from consolidated financial statements according to BRSA Accounting and Reporting Legislation.

⁽²⁾ The arithmetic average of the last 3 months in the related periods.

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

VI. INFORMATION ON LEVERAGE RATIO (Continued)

	Balance sheet assets	Prior Period	Current Period⁽¹⁾
1	Balance sheet assets (Except for derivative financial instruments and credit derivatives, including warranties)	4,940,967	5,248,463
2	(Assets deducted from main capital)	(2,952)	(3,096)
3	Total risk amount of the balance sheet assets (Sum of 1st and 2nd rows)	4,938,015	5,245,367
	Derivative financial instruments and credit derivatives		
4	Replacement cost of derivative financial instruments and credit derivatives	-	-
5	Potential credit risk amount of derivative financial instruments and credit derivatives	389	911
6	Total risk amount of derivative financial instruments and credit derivatives (Sum of 4th and 5th rows)	389	911
	Security or secured financing transactions		
7	Risk amount of security or secured financing transactions (Except balance sheet)	-	-
8	Risk amount due to intermediated transactions	-	-
9	Total risk amount of security or secured financing transactions (Sum of 7th and 8th rows)	-	-
	Off-balance sheet transactions		
10	Gross nominal amount of off-balance sheet transactions	2,499,441	2,715,060
11	(Adjustment amount resulting from multiplying by credit conversion rates)	-	-
12	Risk amount of the off-balance sheet transactions (Sum of 10th and 11th rows)	2,499,441	2,715,060
	Equity and total risk		
13	Main capital	645,914	693,719
14	Total risk amount (Sum of 3th, 6th, 9th and 12th rows)	7,437,845	7,961,338
	Leverage ratio		
15	Leverage ratio	8.69%	8.75%

⁽¹⁾Three months average values

VII. INFORMATION ON RISK MANAGEMENT

Overview of Risk Weighted Amount

		Risk Weighted Amount		Minimum capital Requirement
		Current Period	Prior Period	Current Period
1	Credit risk (excluding counterparty credit risk) (CCR)	3,384,546	3,321,706	270,764
2	Standardised approach (SA)	3,384,546	3,321,706	270,764
3	Internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	51	322	4
5	Standardised approach for counterparty credit risk (SA-CCR)	51	322	4
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 - 12.50% 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	144,825	169,525	11,586
17	Standardised approach (SA)	144,825	169,525	11,586
18	Internal model approaches (IMM)	-	-	-
19	Operational Risk	347,838	295,438	27,827
20	Basic Indicator Approach	347,838	295,438	27,827
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)	3,877,260	3,786,991	310,181

RWA flow statements of CCR exposures under Internal Model Method (IMM)

None.

RWA flow statements of market risk exposures under an IMA

None.

ARAP TÜRK BANKASI A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

VIII. INFORMATION ON CONSOLIDATED BUSINESS SEGMENTS

Information on operational segments on 31 March 2017, 31 March 2016 and 31 December 2016 are presented in the table below:

Current Period	Corporate and Commercial					Total Operations
	Retail Banking	Banking	Treasury	Leasing	Other	
Interest Income	(337)	25,536	15,105	4,784	-	45,088
Commission Income	-	11,159	-	128	-	11,287
Unallocated Income/Expenses (Net)	-	-	-	-	(30,204)	(30,204)
Operating Income	(337)	36,695	15,105	4,912	(30,204)	26,171
<i>Income from Subsidiaries</i>						-
<i>Income before tax</i>						26,171
<i>Tax Provision</i>						(5,428)
Net Profit for the year						20,743

Current Period	Corporate and Commercial					Total Operations
	Retail Banking	Banking	Treasury	Leasing	Other	
Segment Assets	363	1,270,937	3,400,198	322,972	-	4,994,470
Unallocated assets	-	-	-	-	148,570	148,570
Total Assets	363	1,270,937	3,400,198	322,972	148,570	5,143,040
Segment Liabilities	254,942	378,271	3,497,009	230,516	-	4,360,738
Unallocated Liabilities	-	-	-	-	21,208	21,208
Equity	-	-	-	-	761,094	761,094
Total Liabilities	254,942	378,271	3,497,009	230,516	782,302	5,143,040

Prior Period	Corporate and Commercial					Total Operations
	Retail Banking	Banking	Treasury	Leasing	Other	
Interest Income	(264)	27,807	19,279	4,401	-	51,223
Commission Income	-	9,741	-	87	-	9,828
Unallocated Income/Expenses (Net)	-	-	-	-	(37,851)	(37,851)
Operating Income	(264)	37,548	19,279	4,488	(37,851)	23,200
<i>Income from Subsidiaries</i>						-
<i>Income before tax</i>						23,200
<i>Tax Provision</i>						(5,979)
Net Profit for the year						17,221

Prior Period	Corporate and Commercial					Total Operations
	Retail Banking	Banking	Treasury	Leasing	Other	
Segment Assets	573	1,267,257	3,445,670	334,263	-	5,047,763
Unallocated assets	-	-	-	-	51,024	51,024
Total Assets	573	1,267,257	3,445,670	334,263	51,024	5,098,787
Segment Liabilities	262,720	287,735	3,549,322	243,702	-	4,343,479
Unallocated Liabilities	-	-	-	-	101,219	101,219
Equity	-	-	-	-	654,089	654,089
Total Liabilities	262,720	287,735	3,549,322	243,702	755,308	5,098,787

SECTION FIVE

INFORMATION ON DISCLOSURES AND FOOTNOTES OF
CONSOLIDATED FINANCIAL STATEMENTS

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS

1. Information on cash equivalents and Central Bank of Turkey

Information on cash equivalents

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash/Effective	1,349	6,459	1,818	11,289
Central Bank of Turkey	4,490	1,055,866	10,796	957,180
Other	-	-	-	-
Total	5,839	1,062,325	12,614	968,469

Information related to the account of Central Bank of Turkey

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposits ⁽¹⁾	4,490	-	10,796	-
Unrestricted Time Deposits	-	338,159	-	265,646
Restricted Time Deposits	-	-	-	-
Reserve Deposits	-	717,707	-	691,534
Total	4,490	1,055,866	10,796	957,180

⁽¹⁾ General reserve amount requirements maintained at CBRT

Information on Reserve Deposits

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency at the rates of between 4% and 10.5% (31 December 2016: between 4% and 10.5%), and for USD or EUR at the rates of 4% and 24% respectively according to their maturities as per the Communique no.2005/1 “Reserve Deposits ” of the Central Bank of Turkey (31 December 2016: between 4% and 24%). As per the change in the Reserve Deposits Communique which is no of 29588 issued in Official Gazette numbered 2016/2 interest rates of foreign banks deposits subjected to interest rates of other liabilities except the deposits /participation funds other than interest rates of deposits /participation funds in the current application

2. Information on financial assets at fair value through profit/loss

Among financial assets at fair value through profit or loss; there is TL 12,143 marketable securities subjected to repurchase transaction (31 December 2016: TL None). There is no collateral /blocked financial assets at fair value through profit or loss in the current period (31 December 2016: None).

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)**Positive differences on derivative financial assets held for trading showed as below:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	-	-	-	-
Swap Transactions	-	-	467	-
Futures	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	-	-	467	-

3. Information on banks and other financial institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic banks	35,329	1,240,326	26,903	1,330,569
Foreign banks	-	31,327	-	54,917
Foreign head offices and branches	-	-	-	-
Total	35,329	1,271,653	26,903	1,385,486

4. Information on available for sale financial assets**Information on transaction of repo and collateral/blocked financial assets (Net)**

None.

Major types of available for sale financial assets

Available for sale financial assets are composed shares that are not quoted in the stock market.

Information on available for sale financial assets

	Current period	Prior period
Debt Securities	-	-
Quoted in stock exchange	-	-
Not quoted in stock exchange	-	-
Share Certificates	1,679	1,634
Quoted in stock Exchange	-	-
Not quoted in stock Exchange	1,679	1,634
Impairment provision (-)	-	-
Total	1,679	1,634

5. Information on Loans**Information on all types of loans and advances given to shareholders and employees of the Parent Bank**

	Current period		Prior period	
	Cash	Non- Cash	Cash	Non- Cash
Direct Loans Granted to Shareholders				
Corporate Shareholders	3	24,344	-	32,850
Individual Shareholders	-	-	-	-
Indirect Loans Granted to Shareholders	-	-	-	-
Loans Granted to the Bank's personnel	361	-	567	-
Total	364	24,344	567	32,850

ARAP TÜRK BANKASI A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)

5. Information on Loans (Continued)

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

	Standard loans and other receivables		Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Amendments on Conditions of Contract	Loans and other receivables (Total)	Amendments on Conditions of Contract	
		Amendments related to the extension of the payment plans		Amendments related to the extension of the payment plan	Other
Cash Loans					
Non-specialized loans	1,410,883	-	-	52,214	-
Corporation loans	-	-	-	-	-
Export loans	119,466	-	-	-	-
Import loans	-	-	-	-	-
Loans given to financial sector	720,642	-	-	-	-
Consumer loans	363	-	-	-	-
Credit cards	-	-	-	-	-
Other	570,412	-	-	52,214	-
Specialized loans	-	-	-	-	-
Other receivables	-	-	-	-	-
Total	1,410,883	-	-	52,214	-

Number of amendments related to the plan extension of the payment plan

	Standard loans and other receivables	Loans and other receivables under close monitoring
Number of Extension		
Extended by 1 or 2 times	-	52,214
Extended by 3,4 or 5 times	-	-
Extended by more than 5 times	-	-

The time extended via the amendment on payment plan

	Standard loans and other receivables	Loans and other receivables under close monitoring
Extension periods		
0 - 6 Months	-	-
6 - 12 Months	-	-
1 - 2 Years	-	4,889
2 - 5 Years	-	-
5 Years and over	-	47,325

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)*Information on consumer loans, credit cards and loans given to employees*

	Short Term	Medium and Long Term	Total
Consumer Loans-TL	2	-	2
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	2	-	2
Other	-	-	-
Consumer Loans-Indexed to FC	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Consumer Loans-Indexed to FC	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	-	-	-
Installment	-	-	-
Non-Installment	-	-	-
Individual Credit Cards-FC	-	-	-
Installment	-	-	-
Non-Installment	-	-	-
Personnel Loans- TL	19	342	361
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	19	342	361
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	-	-	-
Installment	-	-	-
Non-Installment	-	-	-
Personnel Credit Cards-FC	-	-	-
Installment	-	-	-
Non-Installment	-	-	-
Deposits with Credit Limit-TL (Individual)	-	-	-
Deposits with Credit Limit-FC (Individual)	-	-	-
Total	21	342	363

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)*Information on installment commercial loans and commercial credit cards*

	Short Term	Middle and Long Term	Total
Commercial Installment Loans-TL	1,956	-	1,956
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	1,956	-	1,956
Other	-	-	-
Commercial Installment Loans-Indexed to FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Commercial Installment Loans -FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Corporate Credit Cards-FC	-	-	-
With Installment	-	-	-
Without Installment	-	-	-
Credited Deposit Account-TL (Legal Person)	-	-	-
Credited Deposit Account -FC (Legal Person)	-	-	-
Total	1,956	-	1,956

Allocation of domestic and foreign loans

	Current Period	Prior Period
Domestic loans	1,462,006	1,405,814
Foreign loans	1,091	17,182
Total	1,463,097	1,422,996

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)*Loans granted to subsidiaries and associates**None.**Specific provisions for loans*

Specific provisions	Current Period	Prior Period
Loans and receivables with limited collectibles	-	-
Loans and receivables with doubtful collectibles	-	2,261
Uncollectible loans and receivables	18,879	14,488
Total	18,879	16,749

*Information related to non-performing loans (Net)**Information on restructured loans of non-performing loans**None.**Information on movement of total non-performing loans*

	III. Group	IV. Group	V. Group
	<i>Loans and receivables with limited collectibles</i>	<i>Loans and receivables with doubtful collectibles</i>	<i>Uncollectible loans and receivables</i>
Balances at Beginning of Period	-	4,521	16,528
Additions (+)	-	-	124
Transfers from other categories of nonperforming loans (+)	-	-	4,521
Transfers to other categories of nonperforming loans (-)	-	4,521	-
Collections (-)	-	-	162
Write-offs (-)	-	-	-
Institutional and commercial credits	-	-	-
Individual credits	-	-	-
Credit cards	-	-	-
Others	-	-	-
Balances at End of the Period	-	-	21,011
Specific provisions (-)	-	-	18,879
Net Balance on Balance Sheet	-	-	2,132

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)***Information on foreign currency non-performing loans***

There are non-performing loan receivables in foreign currency amounting TL 6,370 which is followed in Turkish Lira accounts.

Information on gross and net loans under follow-up according to the borrowers

	III. Group Loans and receivables with limited collectability	IV. Group Loans and receivables with doubtful collectability	V. Group Non-performing loans and receivables
Current Period (Net)	-	-	2,132
Loans granted to real persons and legal entities (Gross)	-	-	16,528
Specific provisions (-)	-	-	14,396
Loans granted to real persons and legal entities (Net)	-	-	2,132
Banks (Gross) ⁽¹⁾	-	-	4,483
Specific provisions (-)	-	-	4,483
Banks (Net)	-	-	-
Other Loans and receivables (Gross)	-	-	-
Specific provisions (-)	-	-	-
Other Loans and receivables (Net)	-	-	-
Prior Period (Net)	-	2,260	2,040
Loans granted to real persons and legal entities (Gross)	-	-	16,428
Specific provisions (-)	-	-	14,388
Loans granted to real persons and legal entities (Net)	-	-	2,040
Banks (Gross) ¹	-	4,521	100
Specific provisions (-)	-	2,261	100
Banks (Net)	-	2,260	-
Other Loans and receivables (Gross)K	-	-	-
Specific provisions (-)	-	-	-
Other Loans and receivables (Net)	-	-	-

⁽¹⁾ Foreign bank

Collection policy on loans determined as loss and other receivables

Loans determined as loans and other receivables are collected via legal follow-up and conversion of guarantees to cash.

Information on write-off policy

Loans under legal follow-up are classified and are made provision according to “Regulation on Procedures and Principles Concerning Loans and Other Receivable’s Nature Definition and Provisions”. These loans are collected in collaboration with Corporate and Commercial Credits Monitor and Follow-up Department and Legal and Legislation Services Department and other related departments. However if mentioned loans could not be collected in any way, write-off procedure is implemented. This procedure is implemented by getting the opinion of Legal and Legislation Services Department and by obtaining approvals from Corporate and Commercial Credits Monitor and Follow-up Department and the Board of Directors.

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)**6. Information on held to maturity financial assets*****Information on transaction of repo and collateral/blocked financial assets (Net)***

As of 31 March 2017, the Bank has TL 7,899 marketable securities subjected to repurchase transactions on financial assets available-for-sale (31 December 2016: 3,365).

As of 31 March 2017, the Bank has TL 1,850 held on collateral/blocked for guarantee from assets available-for-sale (31 December 2015: TL 3,085).

Information on government held to maturity financial assets

	Current Period		Prior Period	
	TL	FC	TL	FC
Government bonds	10,400	-	12,269	-
Treasury Bonds	-	-	-	-
Other Public Bonds	-	291,593	-	293,582
Total	10,400	291,593	12,269	293,582

Information of investments held to maturity

	Current Period	Prior Period
Debt Instruments	416,463	404,398
<i>Quoted at stock exchange</i>	<i>306,376</i>	<i>310,697</i>
<i>Not-quoted at stock exchange</i>	<i>110,087</i>	<i>93,701</i>
Impairment loss provision (-)	(4,615)	(4,855)
Total	411,848	399,543

Movement of marketable securities held-to-maturity

	Current Period	Prior Period
Balances at the Beginning of the Period	399,543	281,558
Foreign Currency Gains / Losses on Monetary assets	20,926	56,050
Purchases during the Period	21,435	254,588
Disposals through sales and redemptions ⁽¹⁾	(25,441)	(187,798)
Impairment loss provision ⁽²⁾	(4,615)	(4,855)
Period end balance	411,848	399,543

⁽¹⁾ In the current period amounting to TL 25,441 (31 December 2016: TL 187,798) redemption has been realized.

⁽²⁾ Represents provisions allocated for impairment in the current year.

7. Information on Associates

The Group does not have an associate.

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)**8. Information on consolidated subsidiaries (Net)***Information on consolidated subsidiaries*

The Parent Bank does not have an unconsolidated subsidiary.

*Information on subsidiaries***Information on Shareholders’ Equity for A&T Finansal Kiralama A.Ş.**

CORE CAPITAL	Current Period	Prior Period
Paid in Capital	77,000	77,000
Effect of Inflation Adjustment on Paid in Capital	71	80
Legal Reserves	2,649	2,649
Extraordinary Reserves - Legal Reserve per General Legislation	1	1
Profit / Loss	12,730	10,826
<i>Net Profit</i>	<i>1,904</i>	<i>8,630</i>
<i>Prior Period Profit/Loss</i>	<i>10,826</i>	<i>2,196</i>
Intangible Assets (-)	241	268
Total Core Capital	92,210	90,288
SUPPLEMENTARY CAPITAL	-	-
CAPITAL	92,210	90,288
DEDUCTION FROM CAPITAL	-	-
NET AVAILABLE CAPITAL⁽¹⁾	92,210	90,288

⁽¹⁾ There is no restriction on shareholders' equity of subsidiary. After deduction from the capital, the total net available equity is TL 92,210.

⁽²⁾ As decided in the Annual General Meeting which is held on 27 March 2017, the capital is increased amount of TL 8,000 and amount of TL 536 have been reserved as legal reserves.

There is no internal capital adequacy assessment approach for the subsidiary. There is no additional requirements in terms of the capital of the subsidiary.

Summary information on basic features of equity items

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry.

Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items.

Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves.

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)

Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the third clause of first and second paragraph of 466 and 519 articles of Turkish Commercial Code no. 6102.

Description	Address (City/Country)	Bank’s share percentage-If different voting percentage (%)	Bank’s risk group share percentage (%)
A&T Finansal Kiralama A.Ş.	İstanbul	99.98	99.98

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⁾
322,972	92,451	4,416	6,464	-	1,904	8,630	-

⁽¹⁾ The related subsidiary has no fair value as of 31 March 2017.

Movement related to consolidated subsidiaries

	Current Period	Prior Period
Balance at the Beginning of the Period	77,211	70,213
Movements during the Period	-	6,998
Purchases	-	-
Bonus Shares Received	-	6,998
Dividends from Current Year Profit	-	-
Sales	-	-
Revaluation Increase, Effect of Inflation and F/X Difference	-	-
Impairment Provision (-)	-	-
Balance at the End of the Period	77,211	77,211
Capital Commitments	-	-
Share Percentage at the end of Period (%)	99.98	99.98

Valuation methods of investments in subsidiaries

The method used in the accounting of subsidiaries is explained in Section Three.

Sectoral Information on the subsidiaries

Subsidiaries	Current Period	Prior Period
Banks	-	-
Insurance Companies	-	-
Factoring Companies	-	-
Leasing Companies	77,211	77,211
Finance Companies	-	-

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)***Quoted Subsidiaries***

The Parent Bank does not have a subsidiary that is quoted.

Subsidiaries sold in the current year

None.

Subsidiaries acquired in the current year

None.

9. Information on joint ventures of the Parent Bank

The Parent Bank does not have joint ventures.

10. Information on Financial Lease Receivables (Net)***Information on net financial lease investments***

	Current Period	Prior Period
Gross Financial Lease Investment	302,700	310,751
Earned Financial Lease Income (-)	31,646	30,794
Cancelled Leasing Amounts	-	-
Net Investment on Leases	271,054	279,957

Maturity analysis of financial lease receivables

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	130,625	115,619	150,107	135,364
Between 1-4 years	171,957	155,321	160,331	144,289
Over 4 years	118	114	313	304
Total	302,700	271,054	310,751	279,957

There is a provision amount of TL 1,250 for doubtful financial lease receivables in net financial lease investments (31 December 2016: TL 1,005).

The movement of doubtful receivables is as follows:

	Current Period	Prior Period
Opening Balance	1,005	1,642
Provisions	338	234
Collections	(93)	(871)
Ending Balance	1,250	1,005

11. Information on financial derivatives for hedging

The Group does not have any financial derivatives for hedging.

I. INFORMATION ON DISCLOSURES AND FOOTNOTES OF ASSETS (Continued)**12. Information on tangible assets**

As a result of the valuations that are carried out by licensed expertise firms, revaluation difference amounting to TL 94,128 recognized under shareholders’ equity. The carrying amount of real estates before valuation was TL 15,700.

13. Information on investment property

The Group has no investment property.

14. Information on tax assets

As of 31 March 2017, there is no tax receivable under current tax asset after the deduction of tax liability (31 December 2016: None).

The net amount of assets and liabilities that is calculated over the temporary differences between the applied accounting policies and tax regulation is recorded as net deferred tax asset. Detailed information on net deferred tax asset amounting to TL 4,131 is presented in footnote II-8 in Section Five.

15. Information about fixed assets held for sale

	Current Period	Prior Period
Cost	17	17
Impairment (-)	9	8
Accumulated Depreciation (-)	-	-
Prior Period Net Book Value	8	9
Opening Balance	17	17
Additions	-	-
Disposals (-).net	4	-
Accumulated Impairment (-)	7	8
Impairment (-)	-	1
Accumulated Depreciation (-)	-	-
Depreciation	-	-
Depreciation Expenses (-)	-	-
Closing Net Book Value	6	8

16. Information on other assets

Other assets is amounting to TL 28,528 (31 December 2016: TL 15,826) and does not exceed 10% of total assets of balance sheet except off balance sheet commitments.

ARAP TÜRK BANKASI A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES

1. Information on maturity profile of deposits

Current Period	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6 Months-1 Year	1 Year and over	Accumulating	Total
								Deposit Accounts	
Saving Deposits	8,445	-	814	3,177	366	-	-	-	12,802
Foreign Currency Deposits	426,886	-	6,714	12,639	24,652	1,014	31,719	-	503,624
Residents in Turkey	157,387	-	3,763	5,018	18,612	149	161	-	185,090
Residents Abroad	269,499	-	2,951	7,621	6,040	865	31,558	-	318,534
Public Sector Deposits	1	-	-	-	-	-	-	-	1
Commercial Deposits	14,978	-	13	109	-	-	-	-	15,100
Other Ins. Deposits	1,594	-	-	-	-	-	-	-	1,594
Precious Metal Deposits	-	-	-	-	-	-	-	-	-
Bank Deposits	811,462	-	248,550	637,877	207,970	372,249	1,127,623	-	3,405,731
Central Bank	-	-	-	-	-	-	-	-	-
Domestic Banks	152,194	-	30,010	-	-	-	-	-	182,204
Foreign Banks	659,268	-	218,540	637,877	207,970	372,249	1,127,623	-	3,223,527
Special Financial Inst.	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	1,263,366	-	256,091	653,802	232,988	373,263	1,159,342	-	3,938,852

Prior Period	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6 Months-1 Year	1 Year and over	Accumulating	Total
								Deposit Accounts	
Saving Deposits	10,473	-	2,978	828	12	-	-	-	14,291
Foreign Currency Deposits	462,484	-	5,809	16,789	7,232	982	30,586	-	523,882
Residents in Turkey	191,402	-	5,773	6,748	938	144	156	-	205,161
Residents Abroad	271,082	-	36	10,041	6,294	838	30,430	-	318,721
Public Sector Deposits	-	-	-	-	-	-	-	-	-
Commercial Deposits	8,497	-	2,878	410	3	-	-	-	11,788
Other Ins. Deposits	1,750	-	-	-	-	-	-	-	1,750
Precious Metal Deposits	-	-	-	-	-	-	-	-	-
Bank Deposits	861,691	-	350,263	893,209	125,868	231,599	1,078,116	-	3,540,746
Central Bank	-	-	-	-	-	-	-	-	-
Domestic Banks	40,231	-	20,167	21,687	-	-	-	-	82,085
Foreign Banks	821,460	-	330,096	871,522	125,868	231,599	1,078,116	-	3,458,661
Special Financial	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	1,344,895	-	361,928	911,236	133,115	232,581	1,108,702	-	4,092,457

Information on savings deposits insured by Saving Deposit Insurance Fund and the total amount of the deposits exceeding the insurance coverage limit

	Covered by Deposit Insurance Fund		Not Covered by Deposit Insurance Fund	
	Current Period	Prior Period	Current Period	Prior Period
Saving Deposits	8,915	10,061	3,887	4,230
Foreign Currency Saving Deposits	67,327	66,053	174,813	182,376
Other Saving Deposits	-	-	-	-
Foreign Branches' Deposits Under Foreign Insurance Coverage	-	-	-	-
Off-Shore Deposits Under Foreign Insurance Coverage	-	-	-	-
Total	76,242	76,114	178,700	186,606

Saving deposits not covered by deposit insurance

There are no foreign or off-shore branches of the Parent Bank. The real persons who are out of scope of Savings and Deposits Insurance Fund have not any current or participation account.

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II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES (Continued)***The deposits that are covered in foreign branches of the Bank’s that headquarters located in abroad***

The Parent Bank’s headquarter is located in Turkey.

Amounts not covered by deposit insurance

Individual deposits not covered by deposit insurance

	Current Period	Prior Period
Deposits and Other Accounts held at Foreign Branches	-	-
Deposits and Other Accounts held by Shareholders and their Relatives	-	-
Deposits and Other Accounts of the Chairman and Members of Board of Directors, Chief Executive Officer, Senior Executive Officers and their Relatives	1,796	1,578
Deposits and Other Accounts held as Assets subject to the Crime defined in the Article 282 of the Turkish Criminal Code no. 5237 dated 26 September 2004	-	-
Deposits at Depository Banks established for Off-Shore Banking Activities in Turkey	-	-
Total	1,796	1,578

2. Information on financial derivatives through profit or loss

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	-	-	-	-
Swap transactions	23	-	-	-
Futures transactions	-	-	-	-
Options	-	-	-	-
Other	-	-	-	-
Total	23	-	-	-

3. Information on Funds Borrowed***Information on banks and other financial institutions***

	Current Period		Prior Period	
	TL	FC	TL	FC
Borrowing from Central Bank	-	-	-	-
From Domestic Banks and Institutions	606	64,893	1,482	78,997
From Foreign Banks, Institutions and Funds	-	251,029	-	158,156
Total	606	315,922	1,482	237,153

II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES (Continued)*Presentation of funds borrowed based on maturity profile*

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-Term	606	81,860	1,482	57,952
Medium and Long-Term	-	234,062	-	179,201
Total	606	315,922	1,482	237,153

Additional explanation related to the concentrations of the Parent Bank’s major liabilities on the basis of concentrations, fund providing customers, sector groups and other criteria where risk concentration is observed

Group’s liabilities come from %77 of deposits, deposits which mainly are from Libyan Foreign Bank and its subsidiaries.

4. Information on other foreign resources

The other external resources is amounting to TL 28,386 (31 December 2016: TL 12,365) and this amount does not exceed 10% of the total balance sheet.

5. Information on financial lease obligations

None.

6. Information on liabilities arised from financial derivative transactions for hedging purposes

The Group does not have financial derivative instruments for hedging purposes.

7. Information on provisions*Information on general provisions*

	Current Period	Prior Period
Provisions for Loans and Receivables in Group I	16,756	16,784
Additional provisions for the loans with extended payment plan	-	-
Provisions for Loans and Receivables in Group II	2,474	-
Additional provisions for the loans with extended payment plan	-	2,193
Provisions for Non-Cash Loans	5,178	5,139
Other	-	-
Total	24,408	24,116

Provisions for currency exchange gain/loss on foreign currency indexed loans

	Current Period	Prior Period
Foreign Exchange Provisions for Foreign Currency Indexed Loans ⁽¹⁾	988	4

⁽¹⁾ Foreign exchange differences of foreign currency indexed loans are netted off with loans.

II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES (Continued)

Special provisions set aside for non-funded and non-cash loans

As of 31 March 2017, special provisions set aside for non-funded and non-cash loans are TL 2,395 (31 December 2016: TL 2,316).

Reserve for employee termination benefits

The Group reserved for employee severance indemnities in the accompanying consolidated financial statements using actuarial method in compliance with the updated “TAS 19 - Employee Benefits”. Accumulated all actuarial gains and losses in equity are recognized in other capital reserves.

As at 31 March 2017 and 31 December 2016, the major actuarial assumptions used in the calculation of the total liability are as follows:

The Parent Bank	Current Period	Prior Period
Discount Rate	3.27%	3.27%
Expected Rate of Salary/Limit Increase	7.00%	7.56%
Estimated Employee Turnover Rate	5.58%	5.56%

Subsidiary	Current Period	Prior Period
Discount Rate	3.27%	3.27%
Expected Rate of Salary/Limit Increase	7.00%	7.00%
Estimated Employee Turnover Rate	5.58%	5.56%

In accordance with existing Turkish Labor Law, the Parent Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Parent Bank and whose employment is terminated due to retirement or for reasons other than resignation or as mentioned in related legislation. The computation of the liability is based upon the retirement pay ceiling announced. The applicable ceiling amount as at 31 March 2017 is TL 4,426.16 (full TL) (31 December 2016: TL 4,297.21 (full TL)). Reserve for employee termination benefits are calculated via net present value of estimated provision of probable liabilities will be arised in the future and reflected in the financial statements.

Movement of employee termination benefits are as follows:

	Current Period	Prior Period
Balances at Beginning of period	7,794	6,465
Provision booked in current period	490	803
Actuarial Loss/Gain	256	830
Provision paid in current period (-)	499	304
Balances at End of the Period	8,041	7,794

The employee termination benefit liability of the Group is the amount as at 31 March 2017 is TL 8,041 (31 December 2016: TL 7,794). In addition to this, the unused vacation provision and other employee benefits amount as at 31 March 2017 is TL 5,683 (31 December 2016: TL 5,654).

II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES (Continued)***Information on other provisions******Provisions for probable risks***

These financial statements include a free provision that is out of reporting standards, amounting to TL 16,000 thousand provided by the Parent Bank management in the prior years, in line with the conservatism principle considering the circumstances that may arise from any changes in the economy or market conditions.

In the case of the other provisions, exceeds the 10% of the total provisions, those accounts and balances.

	Current Period	Prior Period
Free provisions for possible risks	16,000	16,000
Provisions for non-cash loans	2,395	2,316
Provisions for law suits	143	180
Total	18,538	18,496

8. Information on tax payables***Information on corporate tax liability***

As of 31 March 2017, corporate tax payable after deducting the prepaid tax is TL 4,273 (31 December 2016: TL 4,639).

Information on tax payables

	Current Period	Prior Period
Corporate Tax	4,273	4,639
Banking Insurance Transaction Tax (BITT)	719	596
Taxation of Securities	211	3,074
Value added taxes payable	758	451
Corporate tax payable-limited	6	9
Foreign Exchange Legislation Tax	-	-
Property tax	22	20
Other	852	1,566
Total	6,841	10,355

Information on premiums

	Current Period	Prior Period
Social Security Premiums - Employee	342	299
Social Security Premiums - Employer	494	430
Bank Social Aid Pension Fund Premium - Employee	-	-
Bank Social Aid Pension Fund Premium - Employer	-	-
Pension Fund Membership Fees and Provisions - Employee	-	-
Pension Fund Membership Fees and Provisions - Employer	-	-
Unemployment Insurance - Employee share	25	21
Unemployment Insurance - Employer share	48	42
Other	-	-
Total	909	792

II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES (Continued)***Information on deferred tax liability***

The Bank has calculated TL 4,948 deferred tax asset and TL 9,079 deferred tax liability over taxable temporary differences as of 31 March 2017 and recorded the net amount of asset and liability to the financial statement (31 December 2016: TL 5,646 deferred tax asset and TL 1,020 deferred tax liability).

The detail of deferred tax asset and liability is as follows:

	Current Period		Prior Period	
	Accumulated temporary differences	Deferred tax asset/ (liability)	Accumulated temporary differences	Deferred tax asset/ (liability)
Provisions for employee rights	13,724	2,745	13,448	2,690
Unearned Income	3,322	664	9,065	1,813
Interest accruals	4,050	810	3,243	649
Depreciation difference for tangible and intangible assets	178	36	297	59
Derivative financial instruments	23	5	-	-
Other	3,438	688	2,177	435
Deferred tax asset	24,735	4,948	28,230	5,646
Tangible assets revaluation increase	94,128	7,652	-	-
Interest accruals	2,601	520	2,514	503
Other	4,531	907	2,588	517
Deferred tax liability	101,260	9,079	5,102	1,020
Deferred tax asset / (liability), net		(4,131)		4,626

The movement of deferred tax asset is as follows:

	Current Period	Prior Period
Net Book Value at the Beginning of the Period	(4,626)	(2,940)
Deferred Tax Benefit / (Charge) (Net)	1,158	(1,517)
Deferred Tax Recognized under Equity	7,599	(169)
Net Deferred Tax (Asset)/Liability	4,131	(4,626)

Information on liabilities for assets held for sale and discontinued operation

The Parent Bank has not any liability for assets held for sale and discontinued operation.

Explanations on the number of subordinated loans the Bank used, maturity, interest rate, institution that loan was borrowed from, and conversation option, if any

The Parent Bank has no subordinated loans.

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES (Continued)**9. Information on Shareholders’ Equity*****Presentation of Paid-in Capital***

	Current Period	Prior Period
Common Stock	440,000	440,000
Preferred Stock	-	-

Paid-in capital amount, explanation as to whether the registered share capital system is applicable at bank; if so the amount of registered share capital

Registered share capital system is not implemented in the Parent Bank.

Information on share capital increases and their sources; other information on any increase in capital shares during the current period

None.

Information on share capital increases from capital reserves

None.

Capital commitments for current financial year and following period, general purpose of these commitments and estimated resources necessary for these commitments

No capital commitments have been made to current financial year and following period.

The impacts of the foresights, which are prophesied according to Group’s prior periods income, profitability, and liquidity indicators and uncertainty, to shareholders’ equity

None.

II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES (Continued)

Information on the privileges given to stocks representing the capital

According to the master agreement, the share capital can be increased or decreased one or more times. Such an increase may be accomplished through the transfer of monies from the reserves to the capital account and the issuance of “bonus” shares in consequence thereof.

Every shareholder shall have the preferential (pre-emptive) right to subscribe for a proportion of new shares corresponding to the number of shares held by him and such right may be exercised within a period of thirty days from the date of receipt by each shareholder of an invitation to the shareholders to that effect. Such invitation shall be made by registered mail to the address contained in the share register.

These preferential (pre-emptive) rights may only be assigned by approval of the Board of Directors upon the favorable vote of 80% of the members, present or represented.

New shares may not be issued at a price less than the nominal value of the original shares issued.

Fractional shares shall be allocated by the Board of Directors.

The Parent Bank may not finance the acquisition of its own shares whether directly or indirectly.

Arabian shareholders are treated under the same legislation with Turkish citizens. This includes the free transfer of distributed other revenues, guarantees, shares, dividends. And in a similar manner Arabian shareholders are benefited and protected by law No.6224, Foreign Capital Incentive Law.

Information on marketable securities value increase fund

The Parent Bank does not have marketable securities value increase fund.

Information on legal reserve

In the current period there is TL 3,000 transferred to legal reserves from retained earnings. (31 December 2016: TL 3,473).

Information on Minority Shares

None.

III. INFORMATION AND DISCLOSURES RELATED TO OFF-BALANCE SHEETS**1. Information on contingent liabilities in the off-balance sheets***Type and amount of irrevocable commitments*

The Group has TL 10,711 (31 December 2016: TL 45,747) as irrevocable commitments.

Type and amount of possible losses from off-balance sheet items

As of 31 March 2017, the Group has allocated the provision amounting TL 7,573 over total non-cash loans (31 December 2016: TL 7,455).

Guarantees, bills of exchange and acceptances and other letters of credit which can be counted as financial collateral

The total amount of non-cash loans including guarantees, bills of exchange and acceptances and sureties on letters of credits and other guarantees is TL 483,088 (31 December 2016: TL 498,103).

Final guarantees, temporary guarantees, commitments and similar transactions

The total amount of the Group’s guarantee letters is TL 2,099,591 (31 December 2016: TL 2,031,650).

2. Total amount of non-cash loans

	Current Period	Prior Period
Non-Cash Loans granted for Cash Loan Assurance	281,802	449,561
Less Than or Equal to One Year with Original Maturity	124,846	266,230
More Than One Year with Original Maturity	156,956	183,331
Other Non-Cash Loans	2,300,877	2,080,192
Total	2,582,679	2,529,753

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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IV. INFORMATION AND FOOTNOTES RELATED TO STATEMENT OF INCOME**1. Information on interest income***Information on interest income received from loans*

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest Received from Loans ⁽¹⁾				
Short- Term Loans	20,489	2,054	22,606	2,446
Medium and Long- Term Loans	12	4,269	210	3,384
Interest Received From Non-Performing Loans	-	-	-	-
Premiums Received From Resource Utilization Support Fund	-	-	-	-
Total	20,501	6,323	22,816	5,830

⁽¹⁾ It contains fee and commission income related to cash loans*Information on interest income received from banks*

	Current Period		Prior Period	
	TL	FC	TL	FC
From Central Bank	-	-	-	-
From Domestic Banks	1,321	6,741	1,312	4,201
From Foreign Banks	-	179	8	68
From Foreign Headquarter and Branches	-	-	-	-
Total	1,321	6,920	1,320	4,269

Information on interest income received from marketable securities

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial Assets Held for Trading	227	12,190	700	11,942
Financial Assets Where Fair Value Change is Reflected to Income Statement	-	-	-	-
Financial Assets Available for Sale	-	-	-	-
Investments Held to Maturity	516	4,744	665	7,455
Total	743	16,934	1,365	19,397

Information on interest income received from associates and subsidiaries

None.

ARAP TÜRK BANKASI A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

**IV. INFORMATION AND FOOTNOTES RELATED TO STATEMENT OF INCOME
(Continued)**

2. Interest Expense

Information on interest paid for funds borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	20	1,705	35	1,377
Central Bank	-	-	-	-
Domestic Banks	20	810	35	722
Foreign Banks	-	895	-	655
Other Institutions	-	-	-	-
Total	20	1,705	35	1,377

Information on interest expense paid to subsidiaries and associates

None.

Information on interest expense given on securities issued

None.

Maturity structure of the interest expense on deposits

Current Period	Time Deposit						More than 1 Year	Cumulative Deposit	Total
	Demand Deposit	Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year				
Turkish Lira									
Interbank deposits	-	882	-	-	-	-	-	882	
Saving deposits	-	17	50	24	-	-	-	91	
Public sector deposits	-	-	-	-	-	-	-	-	
Commercial deposits	-	13	35	2	-	-	-	50	
Other deposits	-	-	-	-	-	-	-	-	
Deposits with 7 days notification	-	-	-	-	-	-	-	-	
Total	-	912	85	26	-	-	-	1,023	
Foreign Currency									
Foreign currency deposits	-	20	52	74	3	191	-	340	
Interbank deposits	89	930	2,624	885	1,583	4,796	-	10,907	
Deposits with 7 days notification	-	-	-	-	-	-	-	-	
Precious metal deposits	-	-	-	-	-	-	-	-	
Total	89	950	2,676	959	1,586	4,987	-	11,247	
Grand Total	89	1,862	2,761	985	1,586	4,987	-	12,270	

Information on dividend income

None.

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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**IV. INFORMATION AND FOOTNOTES RELATED TO STATEMENT OF INCOME
(Continued)****3. Information on trading gain/loss**

	Current Period	Prior Period
Gain	3,911,015	1,787,575
Gain from money market transactions	-	-
Gain from financial derivative transactions	547	911
Gain from exchange transactions	3,910,468	1,786,664
Loss (-)	(3,909,914)	(1,787,930)
Loss from money market transactions	-	-
Loss from financial derivative transactions	(27)	(6,087)
Loss from exchange transactions	(3,909,887)	(1,781,843)
Net Trading Gain/Loss	1,101	(355)

4. Information on income from other operations

	Current Period	Prior Period
From Reversal of Provisions of Prior Year	73	175
From Communication Income	343	366
Gain on sales of assets	18	5
Other Income	57	27
Total	491	573

5. Information on impairment in loans and other receivables

	Current Period	Prior Period
Specific Provisions on Loans and Other Receivables	2,156	26
<i>Loans and Receivables in Group III</i>	-	-
<i>Loans and Receivables in Group IV</i>	-	-
<i>Loans and Receivables in Group V</i>	2,156	26
<i>Doubtful Receivables</i>	-	-
General Provision Expenses	292	2,150
Provision for Possible Losses	-	4,000
Foreign Exchange Losses on Foreign Currency Indexed Loans	-	-
Impairment Losses on Securities	5,573	7,108
<i>Financial Assets through Profit or Loss</i>	5,573	7,108
<i>Investment Securities Available-for-Sale</i>	-	-
Other Impairment Losses	433	4,378
<i>Associates</i>	-	-
<i>Subsidiaries</i>	-	-
<i>Joint Ventures</i>	-	-
<i>Investment Securities Held-to-Maturity</i>	433	4,378
Other	253	96
Total	8,707	17,758

IV. INFORMATION AND FOOTNOTES RELATED TO STATEMENT OF INCOME (Continued)

6. Information on other operating expense

	Current Period	Prior Period
Personnel Expenses	15,799	13,939
Employee Termination Benefits Expense	479	246
Tangible Fixed Asset Impairment Expense	-	-
Intangible Fixed Asset Impairment Expense	555	633
Amortization Expenses of Tangible Assets	-	-
Goodwill Impairment Expense	-	-
Amortization Expenses of Intangible Assets	397	399
Shareholders Equity Procedure Applied Equity Interest Impairment Expense	-	-
Disposable Fixed Asset Impairment Expense	-	1
Amortization Expense of Assets Held for Resale	-	-
Impairment Expense related to Fixed Assets held for sale and discontinued operations	-	-
Other Operating Expenses	3,589	3,383
<i>Operating Lease Expenses</i>	440	469
<i>Maintenance Expenses</i>	799	632
<i>Advertisement Expenses</i>	107	156
<i>Other Expenses</i>	2,243	2,126
Losses from sales of Assets	-	-
Other	2,270	1,710
Total	23,089	20,311

Information on dividend expense

None.

7. Information on profit/loss before taxes including profit/loss from discontinued operations

The pre-tax income amount from continued operations is TL 26,171 (31 December 2016: TL 23,200).

8. Information on tax provision related to continued operations and discontinued operations

Current period taxation benefit or charge and deferred tax benefit or charge

For the period ended 31 March 2017, taxation charge is TL 4,270 (31 March 2016: TL 6,767 tax expense) and deferred tax expense is TL 1,158 (31 March 2016: TL 788 deferred tax income).

Deferred tax charge arising from origination or reversal of temporary differences

The Group has TL 1,158 as deferred tax expense arising from origination of temporary differences (31 March 2016: TL 788 deferred tax income).

Deferred tax charge/income represented in the income statement within the context of temporary difference, financial loss and tax reduction.

The Group has TL 1,158 as deferred tax expense reflected in the income statement computed over temporary difference and tax deductions and exemptions (31 March 2016: TL 788 deferred tax income).

**IV. INFORMATION AND FOOTNOTES RELATED TO STATEMENT OF INCOME
(Continued)****9. Information on net profit or loss of the period including profit/loss from continued and discontinued operations:**

Current period profit from continued operations is TL 20,473 (31 March 2016: TL 17,221).

10. Information on net profit or loss of the period

Information on nature, dimension and frequency rate of income and expense accounts resulting from ordinary banking transactions if they are necessary for explaining the Bank’s current year performance

None.

Information on the profit or loss effect of a change in an estimation related to financial statements and future period effect of the change in this estimation

There is no change in accounting estimation related to consolidated financial statements.

Profit/loss regarding minority rights

There is no profit/loss regarding minority rights in the accompanying consolidated financial statements since the Parent Bank owns 99.98% of the consolidated subsidiary.

11. Information on 20% of other accounts in income statement, if other accounts exceed 10% of total income statement.

Other accounts which exceed the 10% of the income statement, other than other operating income and other operating expense, amounting to TL 5,855 (31 March 2016: TL 4,810) consist of transfer commissions, letter of credit commissions and other .

	Current Period	Prior Period
Letter of Credit Commissions	4,086	3,812
Transfer Commissions	1,397	634
Other	372	364
Total	5,855	4,810

ARAP TÜRK BANKASI A.Ş.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017

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

V. INFORMATION ON THE GROUP’S RISK GROUP

1. Information on the volume of transactions with the Bank’s risk group, lending and deposits outstanding at period end and income and expenses in the current period

Information on the loans of the Group’s risk group

Current Period

Bank’s Risk Group ⁽¹⁾	Associates, Subsidiaries and Joint Ventures		Bank’s Direct and Indirect Shareholders		Other Components in Risk Group	
	Cash	Non-cash	Cash	Non-Cash	Cash	Non-cash
Loans and Other Receivables						
Balance at the beginning of the period	-	-	-	32,850	151,292	93,085
Balance at the end of the period	-	-	3	24,344	151,169	118,125
Interest and Commission Income received ⁽²⁾	-	-	-	-	936	-

⁽¹⁾ Stated at the 2nd clause of the 49 nth article of the Law No. 5411 of Bank’s Act.

⁽²⁾ Loans given to the Parent Bank’s direct and indirect shareholders are composed of forfeiting and letter of credit transactions which the interest and commission income are obtained not from the risk group but from the exporting firms.

Prior Period

Bank’s Risk Group ⁽¹⁾	Associates, Subsidiaries and Joint Ventures		Bank’s Direct and Indirect Shareholders		Other Components in Risk Group	
	Cash	Non-cash	Cash	Non-Cash	Cash	Non-cash
Loans and Other Receivables						
Balance at the beginning of the period	-	-	-	161	36,570	158,329
Balance at the end of the period	-	-	-	11,681	89,650	127,945
Interest and Commission Income received	-	-	-	-	408	-

⁽¹⁾ Stated at the 2nd clause of the 49 nth article of the Law No. 5411 of Bank’s Act.

Information on deposits of the Bank’s risk group

Bank’s Risk Group ⁽¹⁾	Associates, Subsidiaries and Joint Ventures		Bank’s Direct and Indirect Shareholders		Other Components in Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposits						
Balance at the beginning of the period	-	-	2,022,582	2,134,348	875,385	345,621
Balance at the end of the period	-	-	1,791,532	2,022,581	1,095,284	875,386
Interest expense on deposits	-	-	1,278	2,027	1,189	196

⁽¹⁾ Stated at the 2nd clause of the 49 the article of the Law No. 5411 of Bank’s Act.

V. INFORMATION ON THE GROUP’S RISK GROUP (Continued)

Information on forward transactions, options and other contracts related to Group’s risk group

None.

Information on forward transactions, options and other contracts related to the Parent Bank’s risk group

None.

Information on benefits provided for top level management:

31 March 2017, TL 3,304 (31 March 2016: TL 2,695) has been paid to the top level management of the Bank as salaries and fringe benefit.

VI. SUBSEQUENT EVENTS

None.

SECTION SIX

LIMITED AUDITOR’S REPORT

I. INFORMATION ON LIMITED AUDITOR’S REPORT

As of 31 March 2017, consolidated financial statements and explanatory notes of the Bank disclosed herein were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (the Turkish member firm of KPMG International Cooperative) and Independent Auditor’s Report dated 26 April 2017 is presented preceding the financial statements.

II. INFORMATION AND FOOTNOTES PREPARED BY THE INDEPENDENT AUDITOR

None.

SECTION SEVEN

CONSOLIDATED INTERIM ACTIVITY REPORT

I. Evaluation of the Parent Bank’s Chairman and General Manager for the Period

In the first quarter of 2017, global markets focused on signals of the economic policies which will be followed by the new US government and process and timing of interest rate hikes by the US Federal Reserve (FED). In addition, the UK’s Brexit process, elections in the Eurozone, developments in Chinese economy and increase in geopolitical risks were other important topics of the first quarter of 2017.

Since the macroeconomic data in the USA showed that developments on the economy is on progress, the FED raised its policy interest rate by 25 basis points to 0.75-1.00% interval. Two more interest rate hike by the FED are expected for the rest of 2017. On the other hand, the European Central Bank did not make any changes on the policy interest rates in the first quarter and kept its current asset purchase program on hold in parallel with the expectations. China's economy, leading of developing countries, has started the year with a moderate economic growth performance.

Turkish economy recorded a moderate growth performance with 2.9% in 2016 in spite of the extraordinary developments and shocks. Current account deficit rose due to increases in commodity prices and sharp decline in tourism revenues. As of February 2017, the deficit expanded by 3.4% compared to the end of 2016 to twelve months figure of USD 33.7 billion. Meanwhile, annual increase in consumer price index, which was 8.53% at the end of 2016, reached to 11.29% at end-March 2017 as a result of the increasing trend in food prices and the depreciation in Turkish lira. On monetary policy side, the Central Bank of the Republic of Turkey raised the late liquidity interest rate from 10% to 11.75%.

The banking sector continues its moderate growth. At end-February 2017, total assets increased by 3.3% compared to the end of 2016 to TL 2,820 billion. In this period, loans and deposits volumes grew by 3.1% and 2.1%, respectively. In comparison with the same period of the previous year, net term profit climbed by 25% to TL 8.5 billion mainly due to the increase in interest incomes and annual return on equity ratio went up to 15.31%. The sector’s capital adequacy ratio realized as 15.91%.

Our Group operates in line with the target of ‘sustainable growth with profitability’. At end-March 2017, consolidated total assets and shareholders’ equity of our Group stood at TL 5.1 billion and TL 761.1 million, respectively. At the same period, cash loans increased to TL 1,734.2 million, while guaranties and suretyships realized as TL 2,582.7 million. Net term profit of the Group increased by 20.5% compared to the same period of the previous year to TL 20.7 million. Consolidated capital adequacy standard ratio maintained its robust outlook by 20.18%.

In the coming period, our primary goal will be providing accurate and accelerated solutions to our customers in all our target markets especially in North Africa, as it was in the past. We will continue to contribute in the Turkish economy in the context of being Turkey’s door to this region.

Best regards,

Abdulahkim A. E. KHAMAG
General Manager

Yılmaz ERTURK
Chairman

ARAP TÜRK BANKASI A.Ş.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 MARCH 2017**

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

II. Financial Highlights of the Group

Assets (TL Thousand) (1)	2016/12	2017/03
Cash and Balances with the CBT (2)	981,083	1,068,164
Banks	1,412,389	1,306,982
Securities Portfolio (Net) (3)	951,994	883,668
Loans and Receivables	1,427,296	1,465,229
Investment in Subsidiaries (Net)	279,957	271,054
Tangible and Intangible Assets (4)	25,608	119,265
Other Assets (5)	20,460	28,678
Total Assets	5,098,787	5,143,040

Liabilities (TL Thousand) (1)	2016/12	2017/03
Deposits	4,092,457	3,938,852
Funds Borrowed	238,635	316,528
Interbank Money Market	3,495	20,005
Other Liabilities (6)	110,111	106,561
Shareholders' Equity (7)	654,089	761,094
Total Liabilities	5,098,787	5,143,040

Off-Balance Sheet Commitments (TL Thousand)	2016/12	2017/03
Guarantees and Warranties	2,529,753	2,582,679
Commitments	74,824	35,188
Derivative Financial Instruments	35,105	51,076
Total Off-Balance Sheet Commitments	2,639,682	2,668,943

Income Statement (TL Thousand)	2016/03	2017/03
Interest Income	60,589	59,315
Interest Expense (-)	9,366	14,227
Net Interest Income	51,223	45,088
Net Fees and Commission Income	9,828	11,287
Trading Profit / Loss (+ / -)	(355)	1,101
Other Operating Income	573	491
Total Operating Income	61,269	57,967
Provisions for Loans or Other Receivables Losses (-)	17,758	8,707
Other Operating Expenses (-)	20,311	23,089
Profit / Loss Before Tax	23,200	26,171
Tax Provision (-)	5,979	5,428
Net Profit / Loss	17,221	20,743

(1) Rate sensitive assets and liabilities include rediscounts.

(2) Consists of TL and FC Cash, Checks, CBT and Required Reserves.

(3) Consists of Financial Assets where Fair Value Change is Reflected to Income Statement (Net), Investments Held to Maturity (Net) and Financial Assets Available for Sale (Net).

(4) TL 94,128 thousand of quarterly increase in Tangible and Intangible Assets comes from the Real Estate Re-evaluation Differences.

(5) Consists of Assets for Tax, Property and Equipment Held for Sale Purpose and Other Assets.

(6) Consists of Derivatives Financial Liabilities Held for Trading, Miscellaneous Payables, Other External Sources, Provisions, Leasing Transactions Payables and Liabilities for Taxes.

(7) TL 86,476 thousand of quarterly increase in Shareholders' Equity comes from the Real Estate Re-evaluation Differences.

III. Evaluation of the Group's Financial Position and Performance

- In the first quarter of 2017, total assets of the Group went up by 0.9% compared to 2016 from TL 5,099 million to TL 5,143 million. In the period examined, the most significant investment instruments in consolidated assets included loans and receivables 28.5% totaling TL 1,465.2 million, banks 25.4% totaling TL 1,307 million, cash and balances with the CBT 20.8% totaling TL 1,068.2 million. Lease receivables totaling TL 271.1 million constituted 5.3% of consolidated assets.

As of the end of March 2017, compared to the year-end, the most important increases the Group recorded in total assets were tangible and intangible assets by TL 93.7 million, in cash and balances with CBT by TL 87.1 million and in loans and receivables by TL 37.9 million. Meanwhile, the most notable decreases in assets items included in receivables from banks by TL 105.4 million and in marketable securities portfolio by TL 68.3 million.

- At end-March 2017, external sources constituted 85.2% of consolidated liabilities. Total deposits which was the most significant part of the external sources, realized as TL 3,938.9 million. Shareholders' equity increased by 16.4% (TL 107 million) to TL 761.1 million and constituted 14.8% of consolidated liabilities.
- Guaranties and suretyships, which includes letters of guarantee, letters of credit and bank acceptances, went up by 2.1% (TL 52.9 million) to TL 2,582.7 million.
- At end-March 2017, net term profit of the Group stood at TL 20,743 thousand, up by 20.5% from the same period of the previous year.

IV. Information on Subsidiary Subject to Consolidation

- The Parent Bank has a subsidiary that operates in the field of financial leasing.
- A&T Finansal Kiralama A.Ş was established to conduct domestic and foreign financial leasing operations regarding to the permission of Undersecretariat of Treasury and Foreign Trade pursuant to Law No. 3226 with the publication of the Articles of Association in the Turkish Trade Registry Gazette on July 4, 1997.
- Arap Türk Bankası A.Ş. is the main shareholder of the company by 99.98% share. Operations of the company includes leasing transactions of construction equipment, machinery and real estate.
- The company carries out its leasing activities mainly in Turkey.

V. Other Issues

- There is no significant changes apart from the above mentioned explanations compared to the 2016 Annual Activity Report of the Bank, which has been prepared according to “the Regulations on the Principles and Procedures relating to the Preparation and Publication of the Annual Activity Report prepared by the Banks”.