ANNUAL REPORT **2016**

nurolBANK

nurolBANK

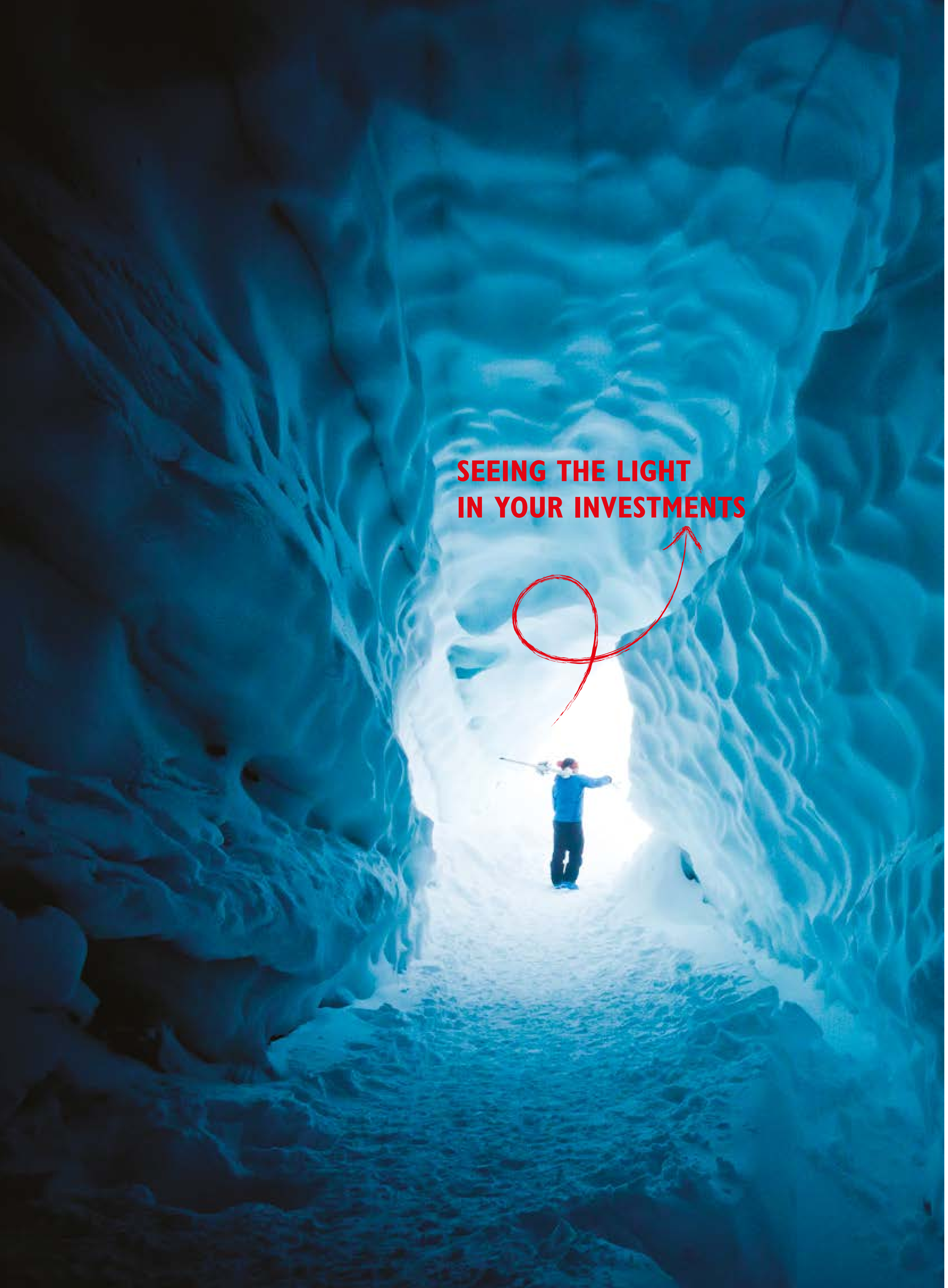


Table of Contents

REACHING TARGETS WITH THE PERFECT BALANCE

The effective use of investment instruments requires a delicate balance. It requires standing firm and being brave as well as having knowledge and experience and knowing how to make strategical moves under variable and challenging conditions.

For us, success means challenging and getting over ourselves, going beyond expectations, not taking existing conditions as read and creating our own conditions and standards. And the biggest prize is the pleasure of beating the odds, like in extreme sports.

In 2016, a year of rapid economical, political and social developments and changes, we continued to grow with increasing acceleration, to enable our customers to earn more in line with this view, while steadily sustaining our success.

With our challenging management understanding and professional and dynamic team, we will continue to work to reach further, higher and better, and to set sail for new horizons by challenging ourselves even under the hardest conditions...

MESSAGE FROM THE CHAIRMAN

Dear stakeholders, business partners and employees,

Last year, we experienced increases in risks and strong fluctuations in money markets due to political and economic developments, as well as geopolitical reasons, in our region. The Brexit decision, the election of Donald Trump as the US President, the rise of the US dollar, the slowdown in the growth of China, on which all the production figures in the world are built, and the increasing global terror risk have negatively affected the economies of all countries. Investors who could not earn from American and European assets turned their eyes towards oil, and this lead to an upward trend in commodity prices.

Global acquisitions reached a record high in 2016. Especially American companies directed their surplus cash to acquisitions since the growth in their country had stopped. It is presumed that companies with surplus cash will continue to look for acquisitions in different sectors in the next year. Along with these developments, it is observed that Trump's presidency triggered the demand for US dollars, bonds and companies. It is expected that the growth plan targeted by the new President will change the sectors, lead to a shift from the service sector to the manufacturing sector, and thus, will change the consumer class in the USA in 2017. Although it is inevitable that this growth will lead to an increase in the USA's budget deficit, it is anticipated that the economic recovery arising from the growth will meet the deficit and worldwide investments in infrastructure projects and energy projects will increase independent from the USA.

In 2016, there was a cash flow towards developing countries as from mid-February to the beginning of November. If the rise in the commodity market continues in 2017, the cash flow to developing countries will depend on the stability in geopolitics and the foreign policies of countries. At this point, changes in the foreign policies of developing countries will constitute a very important risk factor. Despite the increasing geopolitical risks in this conjuncture, a calm management of its foreign policy by Turkey will be of importance in domestic investment decisions of foreign and domestic investors.

For the first time in a long while, a negative correlation has started between interests in borrowing markets and returns in stock exchange markets. This development will dominate investments in 2017. Whereas it is the dominating view that asset prices are above normal, Turkey needs to primarily remove political risk factors.

In 2017, it will be more critical than ever to follow economic, political and social developments and manage information flow in the Banking sector. Based on the view that the Banking sector is the heart of a country, Nurolbank will manage this challenging period in the most efficient way. We will continue to provide our services with a stable and reliable banking understanding by selectively focusing on developing sectors with the expectation that revenues will increase in a conjuncture where risks are increasing.

Let me take this opportunity to extend my thanks and regards on behalf of the Board of Directors and our shareholders to our customers for their confidence in Nurolbank, to wish them further success in the future, and to thank our employees for their efforts.

Ziya Akkurt
Chairman of the Board of Directors

MESSAGE FROM THE GENERAL MANAGER

Our esteemed shareholders, customers and business partners,

In 2016, we successfully completed another year with pride in correctly formulating the road map we used to reach our target, in spite of all the troubles experienced, and we have risen up on sound foundations by putting our name to distinctive works along our journey of change, which we started with the target of sustainable growth.

Taking strength from correct strategy…
We believe that the most important capital of a company on this path is the knowledge and skills of its employees. We continue to provide a reliable banking service by formulating correct strategies according to our customers' needs, with our management understanding focusing on the view that the people who believe that they can trigger a change will be successful in the works they undertake.

Advancing with firm steps…
We take pride in having improved our sustainable growth targets from the previous year to above Turkish Banking Sector averages in 2016, in spite of unfavorable developments in both the Turkish and world economies. In 2016, **we increased our Total Assets by 63%, our Equities by 29%, and our Net Profit by 97%**.

Riding on the wind...
2016 was a year in which risks increased globally in terms of financial markets. While the Turkish economy displayed a successful performance in the first half of 2016, extraordinary developments experienced in the second half of the year created adverse pressure on this performance and the Turkish markets witnessed a very strong negative disintegration. Terrorist incidents during the year, a coup attempt and adverse developments in tourism as a result of the political crisis with Russia affected the Turkish economy unfavorably in terms of both growth and current deficit. In the Turkish banking sector, non-deposit resources depend on borrowing to a large extent, and the sector is behind emerging and developing countries in terms of creating resources by means of securitization and subordinated loans.

Moving forward in deep waters…
In 2017, we expect a year where global economic uncertainties will decrease but still continue. We anticipate that the volatile course of the Turkish Lira against US dollar will continue but, still, 2017 will be more favorable than 2016 economically. Especially, the restart of trade with Russia, the downward trend of geopolitical risks, particularly in Syria and Iraq, the credit support which will provide the real sector with up to 250 billion TL, of which legal infrastructure has been prepared in TGNA pursuant to the decision made by the Economy Coordination Board, will reflect positively on growth, employment and exportation figures.

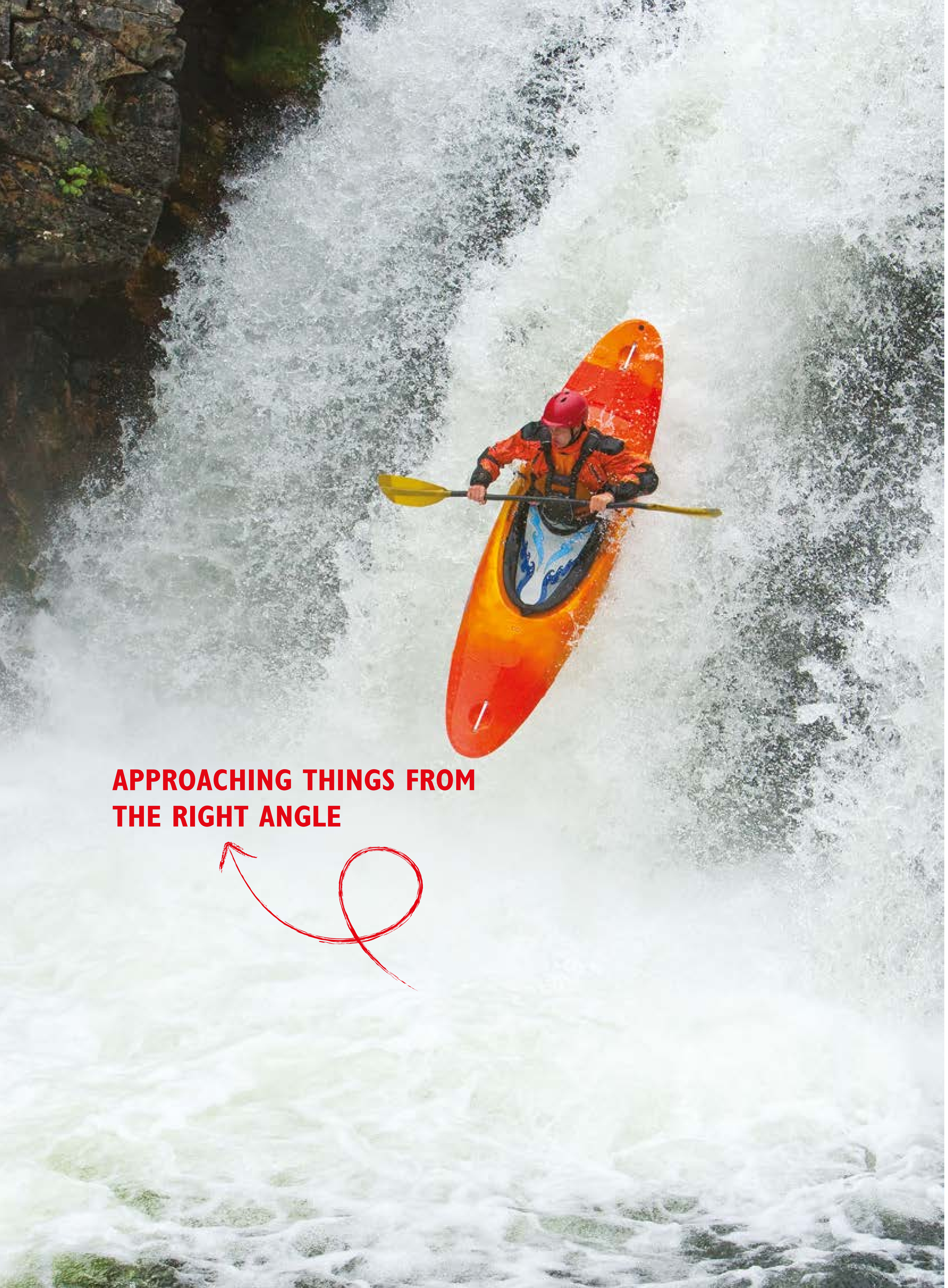
Relying on the success we maintained with an increasing rate in 2016, our bank looks at our future in deep waters with determination and hope. This common enthusiasm shared by all our employees raises our strength and motivation.

Harmonious team work…
Achieving an outstanding performance by establishing a comprehensive and wide range of relationship networks with its professional employees with high personal qualities, Nurolbank management will continue to develop funding opportunities by using its investment banking products by means of its harmonious team work, increase the domestic and foreign correspondent network of our bank and make efficient transactions which create difference.

Succeeding together…
As Nurolbank, our profit, which we increased by **97%**, and the customer satisfaction we achieved by means of our outstanding performance thanks to our ability to completely satisfy the requirements of team work and make quick decisions, strengthen my belief in achieving the targets for 2017 together with my team. I would like to thank all our employees for their contributions to this success.

Best Regards,

Özgür Altuntaş
Member of the Board of Directors and General Manager



ABOUT US, OUR VISION, OUR MISSION, OUR STRATEGIES

About Us

Having started its activities in 1999 and headquartered in Istanbul, Nurolbank offers a wide range of investment and corporate banking services to its customers.

Equipped with a firm capital structure and qualified human resources, Nurolbank is aware of what it means to be among the leading banks in the field of investment banking, and therefore aims to serve customers dedicated to generating economic value and in need of various financing products, throughout long-lasting relations.

Nurolbank provides services that help increase the productivity of its customers while lowering their existing risk levels, and enabling them to significantly keep their costs under control and expand their market shares.

Boasting a team of professionals with technical know-how and extensive experience in local markets, Nurolbank addresses its customers' needs with the following products and services:

- Finance tools structured to provide alternative funding sources,
- Complex financial modeling,
- Optimum financial package structuring,
- Equity finance consultancy,
- Creative and innovative products and services that enable the generation of new funding sources from local and international institutions and capital markets.

Nurolbank continues its journey with bank management policies built on prudent and firm insights. Our bank will continue to operate by providing on-time information and flexible financial solutions for businesses in today's ever-changing, interdependent, and fiercely competitive markets.

Our Vision

Offering solutions in line with globally-acclaimed standards to organizations in Turkey that are in need of financial support.

Our Mission

Identifying customers' problems and needs accurately, and offering tailor-made solutions; becoming a bank which can put these solutions into action; offering its shareholders a revenue at least as equal as market conditions; and transforming into a niche bank that can stand on its own feet independently of the group.

Our Strategy

- Making sure that all our staff are equipped with the corporate culture and team spirit with a focus on our targets,
- Placing importance on diversity of sources and products,
- Developing products and services based on accurate identification of customers' needs, acting as an intermediary,
- Becoming Turkey's best investment bank, as defined in international standards.

REACHING PERFECT HARMONY BY EXPERIENCE

CAPITAL, SHAREHOLDING STRUCTURE and SHARES OF BOARD MEMBERS

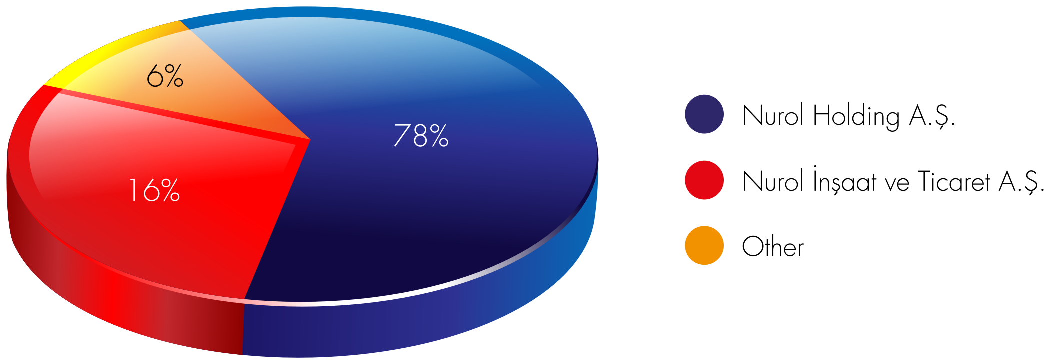
Shareholders and the capital structure as of 31 December 2016 are as follows:

Name-Surname / Trade Name	Number of Shares	Amount of Shares (1000 TL)	Percentage of Shares %
Nurol Holding A.Ş.	35,171	35,171	78.16%
Nurol İnşaat ve Ticaret A.Ş.	7,182	7,182	15.96%
Nurol Otelcilik ve Turizm İşletmeleri A.Ş.	397	397	0.88%
Nurettin Çarmıklı	400	400	0.89%
Erol Çarmıklı	400	400	0.89%
Mehmet Oğuz Çarmıklı	400	400	0.89%
Eyüp Sabri Çarmıklı	350	350	0.78%
Oğuzhan Çarmıklı	350	350	0.78%
Gürol Çarmıklı	175	175	0.39%
Gürhan Çarmıklı	175	175	0.39%
	45,000	45,000	100.00%

The shares of the Chairman and Vice Chairman as of the end of 2016 are provided in the following table. The General Manager and Board Members, except those listed in the table below, do not hold any shares in the bank.

	Number of Shares	Percentage of Shares %
Mehmet Oğuz Çarmıklı - Vice Chairman	400	0.89%
Eyüp Sabri Çarmıklı - Board Member	350	0.78%
Gürhan Çarmıklı - Board Member	175	0.39%

NUROLBANK SHAREHOLDING STRUCTURE



No amendment has been made to the Articles of Association in 2016.

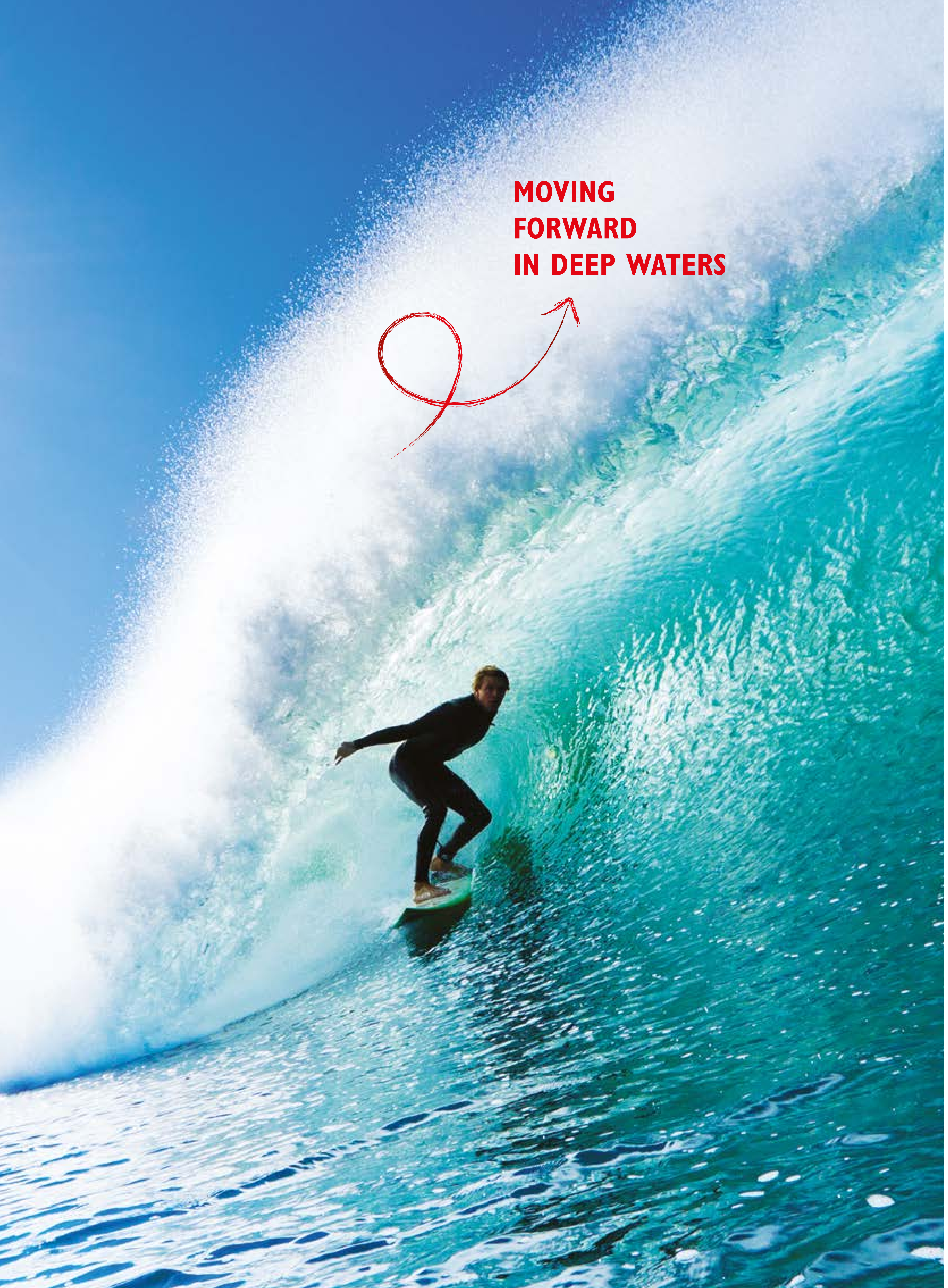
GLOBAL ECONOMIC OUTLOOK

In the global economy, the problem of not being able to grow is ongoing due to the weak recovery in developed economies and recession in developing economies. The global economy was caught in a low growth trap in 2016. The low growth environment has become evident in many developed and developing economies. The tendency to slowdown observed in global trade and investments still persists. The low level of total demand in developed economies is one of the main obstacles to global growth. It is seen that the stagnation which started with the 2008 crisis could not be entirely overcome in 2016 either.

Unproductive monetary expansion policies, increasing private sector debt, geopolitical and political uncertainties, the Brexit decision, volatility in financial markets, low global demand continuing for a long time, low levels of increase in efficiency and low levels of increase in wages brought down the long-term growth forecasts. Volatile capital flows and the pressure of deterioration in exchange rates cause interest rates of developing countries to dissociate from global interest rates. Optimistic views on global growth expectations are getting fewer and fewer. It appears that monetary policies alone are not enough to get over the low growth trap, existing financial fields should be used to support investments, and the need for structural reforms to increase efficiency, wages and equality still continues. According to global economic growth forecasts of the International Money Fund (IMF) for this year and the following years, the world economy has grown by 3.1% in 2016, and it is expected to grow by 3.4% in 2017. According to a report by the Organization for Economic Co-operation and Development (OECD), the global growth figures for 2016 and 2017 are 2.9% and 3.2%, respectively.

The Federal Reserve increased the key interest rate by 25 basis points in its monetary policy meeting held at the end of 2016, on 13-14 December. FED members anticipate that there will be 3 interest rate increases in 2017. In the USA, the unemployment rate decreased and inflation approached 2%, the long-term target of the FED. Economic growth gained acceleration as from mid-2016 and the growth rate exceeded expectations with a rate of 3.5% in the third quarter. The macroeconomic data declared in the last period indicates that economic activity in the country gained stability. According to the Global Economic Overview of IMF, growth forecasts for the USA economy were revised upwards due to the assumption that the Trump administration will concentrate on policies focused on growth.

It is anticipated that the British economy, which showed a more positive performance than expected after the Brexit voting, will grow faster than previous forecasts in 2017. While China's growth forecasts were raised to 6.5% from 6.2% for 2017 in parallel with incentive expectations, it is stated that the economic overview in developing countries got worse. The temporary interruption in consumption expenditures in India due to the cash crisis comes to the forefront in this development.



GLOBAL ECONOMIC OUTLOOK

In Italy, Paolo Gentiloni has been appointed Prime Minister in place of Matteo Renzi who resigned after the constitution referendum held on 4 December. Although the appointment caused no political crisis, adverse events experienced in the country's banking sector have become prominent. It was declared that the government would recover Monte dei Paschi, the third biggest bank of Italy, and the Italian parliament approved the recovery package of 20 billion Euros for the banking sector.

While the European Central Bank (ECB) did not change the key interest rate, it made some arrangements in its asset purchase program in its monetary policy meeting on 8 December. ECB extended the duration of its asset purchase program until the end of 2017 and lowered the monthly amount of asset purchase to 60 billion Euros with a decrease of 20 billion Euros with effect from March 2017. It was observed that the Euro lost value against US dollar after the ECB meeting. The parity followed a fluctuating course during the year to reach 1.0513 as of 30 December 2016.

Gold prices, which had shown a declining trend in general as from 2013, finished 2016 with an increase of 9%. However, the US dollar's strong outlook limited the increase in gold prices. Gold prices showed some recovery in the second half of the year, and reached the level of 1,158 USD/ounce at the end of 2016. On the other hand, OPEC member countries, in the meeting they held in Vienna, agreed on decreasing oil production. According to the agreement, OPEC member countries, who provide 1/3 of the global oil supply with 33.6 million barrels per day, aim to decrease their daily oil production by 1.2 million barrels as of January 2017. Following the decision of oil producer countries to decrease production, oil prices tended to increase, reaching the highest level in December. In 2016, the price of Brent Crude oil increased by 45.4% compared to the previous year. Oil prices were above the level of 50 USD/barrel during December and reached the highest levels of the year on the last days of the month. The barrel price of Brent Crude oil, which increased by 15.6% as of 30 December compared to the end of November, was realized as USD54.7 at the end of 2016.

TURKISH ECONOMY

The last year was hard for the Turkish economy with increasing terrorist incidents, political uncertainties, geopolitical risks, adverse developments in the tourism sector and decreases in the notes of credit rating agencies. Moreover, the continuance of uncertainties in the global economy at an increasing rate, increases in interest rates of developed countries in the last quarter of the year and the increase in the value of the US dollar have led capital flows to developed countries from developing countries.

The Turkish economy continued to grow in the first half of 2016. It was observed that the positive course in the economy continued in the first quarter of the year, and the economy continued to grow with the support of the domestic demand even though it lost some speed. However, the domestic economic activity was under pressure significantly in the third quarter of 2016 due to the poor performance of the tourism sector, as well as the adverse effects of the coup attempt on 15 July. According to data calculated by the chained volume index method, Turkey's GDP decreased by 1.8% year-over-year in the third quarter of the year. Therefore, the Turkish economy contracted for the first time after growing in the last 27 quarters. As of the first nine months of the year, the Turkish economy achieved an annual growth of 2.2%. The outlook for global growth and uncertainties regarding monetary policies of developed countries, a weak course of capital flows, and geopolitical developments constitute a downward risk for growth in 2017, as in the recent period.

The simplification policy mentioned by TGNA at the end of 2015 was realized in 2016 with the actions taken regarding the interests. The Central Bank kept the key interest rate fixed at the 7.5% level, the overnight borrowing rate, which is the lower band of the interest rate corridor, at 7.25% throughout the year, and decreased the overnight lending rate, which is the upper band of the interest rate corridor, in parallel with expectations. The Central Bank lowered the overnight lending rate from 10.75% to 8.25% with a total decrease of 250 bps in interest rates applied seven times successively. However, TGNA decided on monetary tightening to a degree in its meeting on 24 November, and increased the interest rate for the first time since January 2014 in order to limit the adverse effects of volatility in global and domestic finance markets on the foreign exchange market and credit conditions. TGNA raised the key interest rate to 8% from the level of 7.5% with an increase of 50 bps, and the overnight lending rate to 8.5% from the level of 8.25% with an increase of 25 bps. The Central Bank also decreased the required reserve ratios in foreign currency by 50 bps in all maturity segments, while allowing for a term extension until 31 March 2017 at the latest for rediscount credits for exportation and foreign currency earning services, which will become due by 31 December 2016. The Central Bank of Turkey targeted to mitigate the pressure on inflation caused by the value loss in TL in the recent period, while aiming to provide additional US dollar resources to the market by means of the adjustment it made for required reserves.

In 2016, with high volatility, the Brexit decision of the United Kingdom, Donald Trump's victory in the USA elections, the interest rate increases of the FED, the coup attempt in the country and the downgrading in Turkey's investable credit rating by Moody's, as well as the political tension due to presidency system discussions, and the increase in geopolitical risks due to developments in Syria caused fluctuations in the markets. The USD/TL rate reached historical levels. The Turkish Lira, which has been put under pressure by external developments, also separated from currencies of developing countries in a negative way and lost value by 20.61% with geopolitical and political developments in the country in 2016. The rising trend of the USD/TL rate, which started in November with an upward course, gained speed after the US elections. The USD/TL rate reached a historical high of 3.60 on December 2, and followed a relatively horizontal course with the support of the Central Bank of Turkey in the last days of the month. We expect that we will see new peaks for the USD/TL rate in 2017 and the first half will be harder than the second half. The volatility will continue particularly in the first quarter of the year. The loss in TL will keep the pressure of interest rate increase on the Central Bank.

TURKISH ECONOMY

The credit rating agency Standard & Poor's gave the opinion that political polarization increased after the coup attempt on July 15, and corporate audit mechanisms weakened, decreasing Turkey's credit rating from BB+ to BB, and turned the stable outlook of our credit rating into negative. At the end of September, international credit rating agency, Moody's, downgraded Turkey's credit rating, which was at the lowest level for investment, by one grade, justifying this by the increase in risks arising from high external financing requirements, and the weakening of economic growth and policy making and implementing institutions. While the credit rating has been downgraded from Baa3 level to Ba1, namely the speculative level, the credit rating overview which was negative has been turned into stable.

TSI revised its method to calculate GDP. Within this framework, growth rates, which had been explained with fixed prices, started to be calculated according to the chained volume index (2009=100 base points). As a result of revisions made to quarterly data, the growth in the first quarter of 2016 fell to 4.5% from 4.7%, and the growth in the second quarter increased to 4.5% from 3.1%. In the third quarter of 2016, among the main sectors, only the construction sector had a real increase on a year-over-year basis. The construction sector showed a positive performance in the first two quarters of 2016 and showed a real growth of 1.4% in the third quarter. The agriculture sector, which contributed to the growth significantly in the third quarter of the previous year, contracted by 7.7% due to the base effect in the same period of this year. In this period where leading indicators show a weak outlook, the industry and service sectors contracted by 1.4% and 8.4%, respectively on a year-over-year basis. It was striking that the service sector's share in GDP with current prices fell to a historical low with 20.2%.

According to TSI data, the number of unemployed aged 15 or over had a year-over-year increase of 500 thousand people in October 2016 to reach 3 million 647 thousand people. The unemployment rate increased by 1.3 points and realized at 11.8%. In the same period, the non-agricultural unemployment rate was estimated as 14.1% with an increase of 1.5 points. The unemployment rate was 21.2%, with an increase of 1.9 points in the young population (15-24 years old), and 12% with an increase of 1.3 points in the 15-64 age group. The contraction in the economy and the negative outlook of the tourism sector were influential on the increase in the unemployment rate in the third quarter of the year.
Current accounts gave a deficit of 1.7 billion dollars in October in parallel to market expectations. The current deficit was around 343 million dollars in the same period of the previous year. In the first ten months of the year, the current deficit expanded by 6% annually to 26.5 billion dollars. The cumulative current deficit for 12 years reached its highest level since November 2015 with 33.8 billion dollars. Considering the 12-month data, excluding net power trade, it is seen that the current deficit has reached the highest level of the last 32 months with 9.6 billion dollars. The distortion in the services balance in October was determinant in the expansion of the current deficit. The surplus in the services balance decreased by 916 million USD on a year-over-year basis. 630 million USD of this amount was caused by the decrease in net tourism revenues. On the other hand, it is seen that the decrease in net tourism revenues slowed down in the last months. In this period, foreign trade performance also affected the current deficit negatively. The foreign trade deficit expanded by 13.5% annually with the decrease in exportation in October.

Annual CPI inflation, which followed a fluctuated course within the 6.6-9.6% band in 2016, was 8.53% at the end of the year. Therefore, annual CPI increase was above the estimated year-end interval (7-8%) of the Central Bank of Turkey. The annual inflation in domestic PPI moved in a very large band during the year, depending on the developments in foreign exchange rates and the course of commodity prices, and reached the highest level of the last 26 months with a rate of 9.94% at the end of the year. In 2016, CPI increased in December quite above the market expectation with a rate of 1.64% compared to the previous month. Domestic PPI continued its rapid increase with a rate of 2.98% in December after an increase of 2% in November. Alcoholic beverages and tobacco group had the highest monthly increase with a rate of 7.33%. In December 2016, with regard to the main expenditure groups, there was an increase of 3.29% in food and non-alcoholic beverages, 1.97% in transportation, 1.42% in entertainment and culture and 1.28% in household goods, which are some of the groups included in the index.

Rate of Return on Equity (By Profit Before Tax)

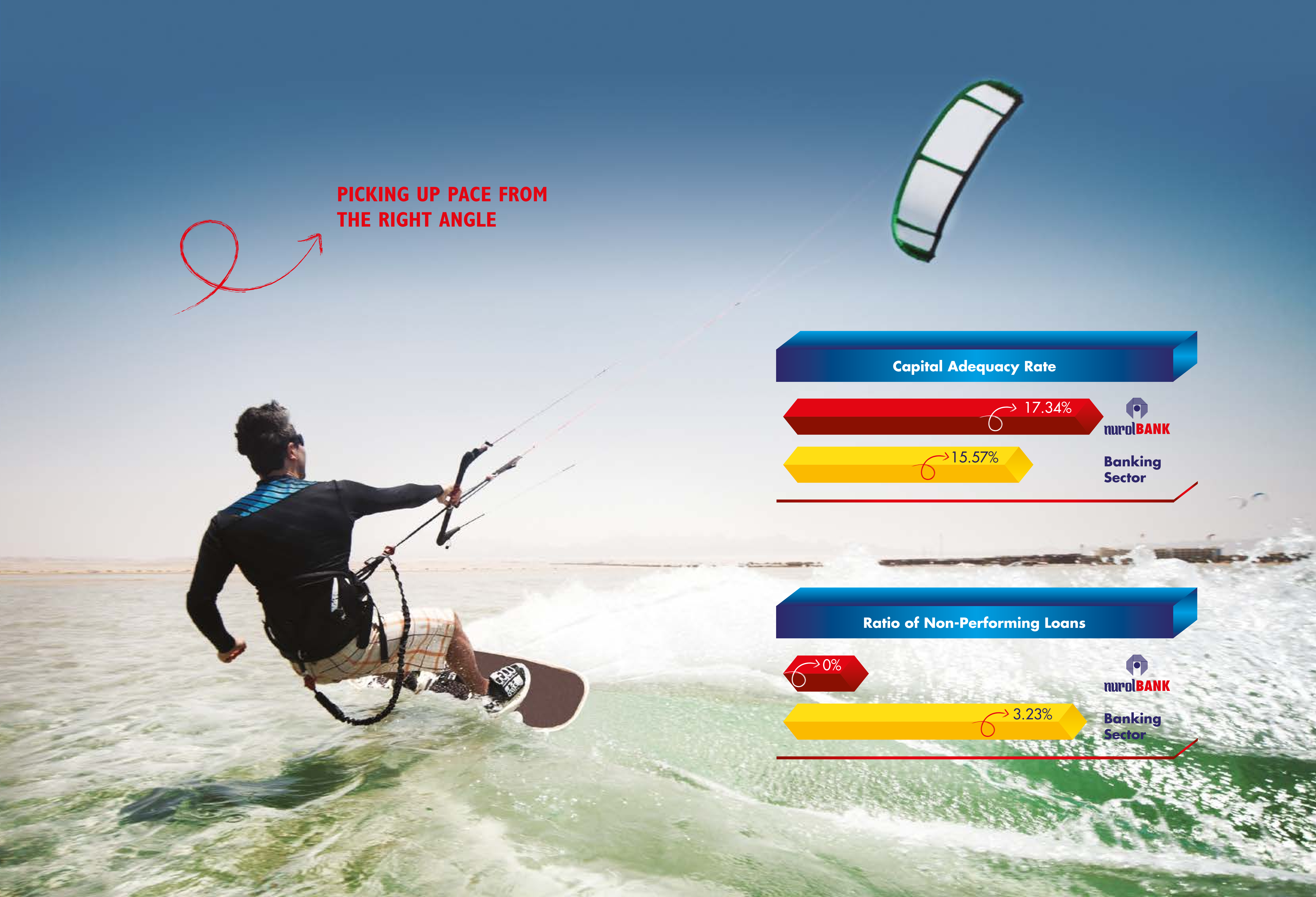
nurolBANK	32.99%
Banking Sector	17.99%

Rate of Return on Assets (By Profit Before Tax)

nurolBANK	4.89%
Banking Sector	1.89%

ADVANCING WITH FIRM STEPS

PICKING UP PACE FROM THE RIGHT ANGLE



NUROLBANK 2016 ACTIVITIES and POSITION IN THE INDUSTRY

- The size of our Bank's assets is 1,174.2 million TL as of 31 December 2016. Cash Loans correspond to 776,8 million TL and constitute 66% of the total assets.
- Our Bank's paid-in capital is 45 million TL and our Equity Capital is 157.9 million TL according to data as of 2016 year-end. The Total Cash Loans Portfolio, which was 420.3 million TL as of the end of 2015, increased by 85% and reached 776.8 million TL as of the end of 2016.
- 798.9 million TL (61%) of our Total Cash and Non-Cash Loan Portfolio is represented by Turkish Lira, with the remaining 520.6 million TL (39%) represented by Foreign Currency Loans.
- As of 2016, Cash Loans constituted 776.8 million TL (59%) of our Loan Portfolio, while Non-Cash Loans constituted 542.8 million TL (41%).
- Our Capital Adequacy Ratio of 21.66% as of the end of 2015 has become 17.34% as of the end of 2016.
- Our Bank issued 10 million US dollars of Foreign Currency Debt Instrument on 31 March 2016 successfully. The bonds sold to Qualified Investors abroad are taken into consideration in tier 2 capital accounts as debts similar to secondary capital.
- As of 21 December 2016, the Bank obtained a total of USD 10 million of OPIC sourced financing, of which USD 5 million consists of subordinated loans.
- Our Bank continued to issue Capital Market debt instruments in 2016 as well. It issued bills and bonds corresponding to 870 million TL in total in 2016.
- On the other hand, pursuing an approach to determine reliable lending standards that ensure a sound and sustainable loan portfolio, and taking into account our strategies and targets, the Bank's ratio of non performing loans has remained significantly below the average figures in the Banking Sector.

Credit Note By Credit Rating Agency

In 2016, JCR-Eurasia categorized Nurol Yatırım Bankası A.Ş. and "Cash Flows of Planned Bond Issuance" as highly investable, and

- Upgraded the Bank's Long-Term National Note to an 'AA-(Trk)'/stable outlook.
- Approved the Long-Term International Local Currency Note as 'BBB'/(Stable Outlook) above the Country Ceiling Note.

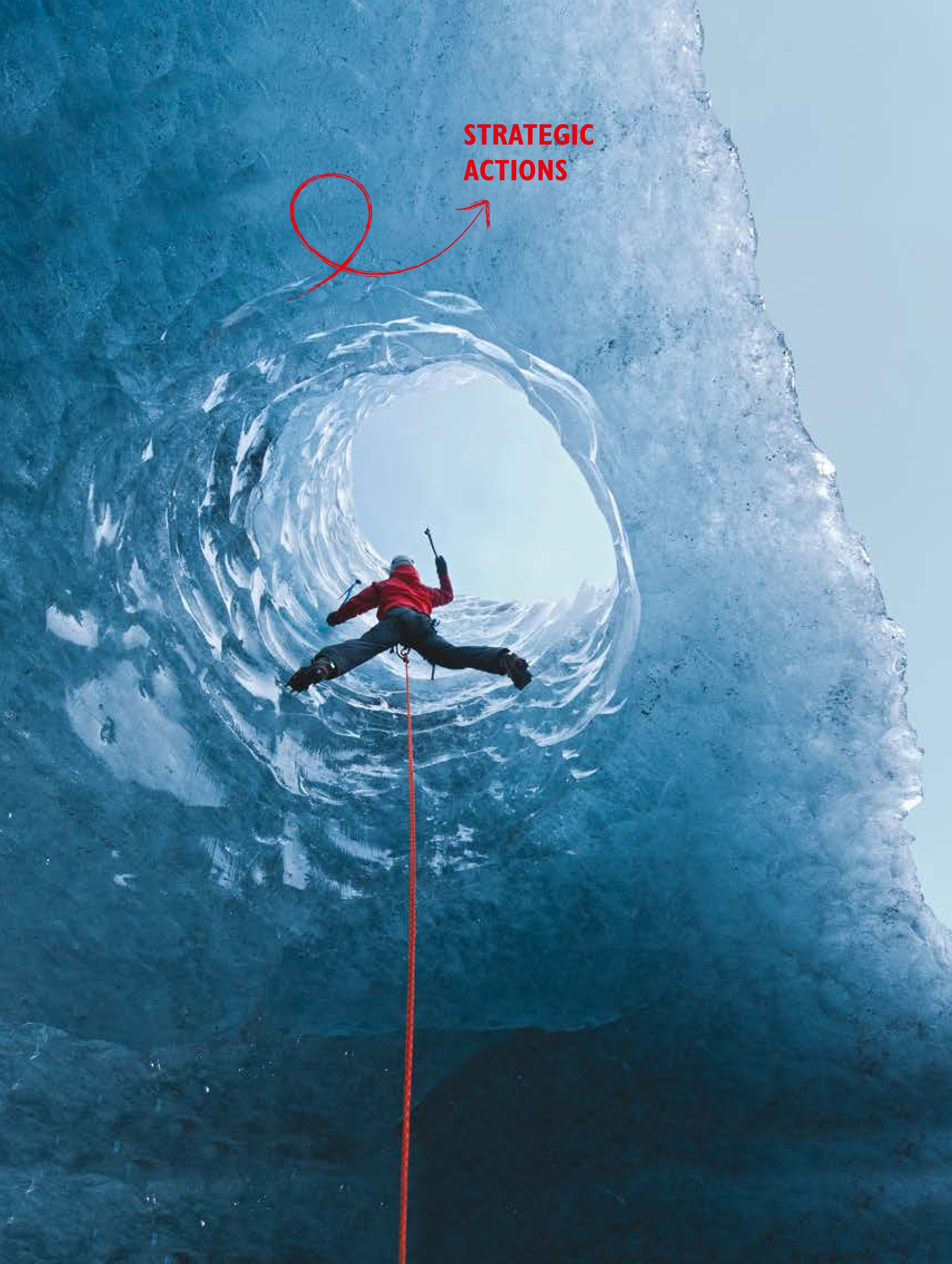
FINANCIAL INDICATORS

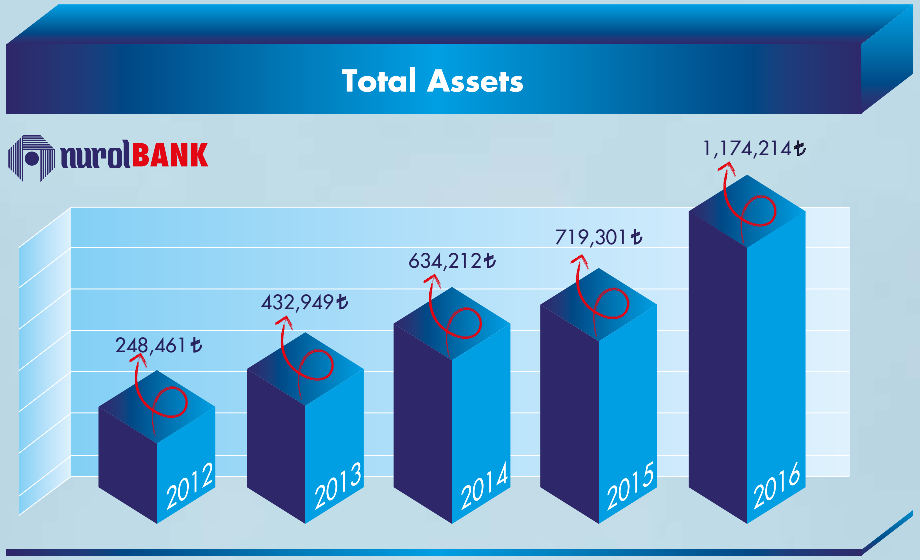
(1000 TL) KEY FINANCIAL INDICATORS	31.12.2016 (1000 TL)	31.12.2015 (1000 TL)	31.12.2014 (1000 TL)	31.12.2013 (1000 TL)	31.12.2012 (1000 TL)
Total Assets	1,174,214	719,301	634,212	432,949	248,461
Banks and Other Financial Institutions	93,541	106,604	109,210	58,814	12,849
Securities	45,514	34,584	58,755	82,573	56,888
Total Loans (Cash)	776,800	420,312	339,805	219,569	150,576
Total Loans (Non-Cash)	542,776	269,511	308,225	375,443	388,328
Financial Leasing Receivables (Net)	-	8,792	12,336	17,594	-
Securities Issued	525,853	382,400	204,629	102,308	-
Loans Received	150,163	39,586	22,077	77,993	52,501
Borrower Funds	9,970	121,237	45,750	36,691	21,686
Subordinated Debts	53,364	-	-	-	-
Equity Capital	157,941	122,738	97,579	81,231	104,933
Profit/Loss Before Tax	46,305	24,809	20,769	-1,037	4,285
Net Profit/Loss	37,004	18,826	16,415	-551	3,258

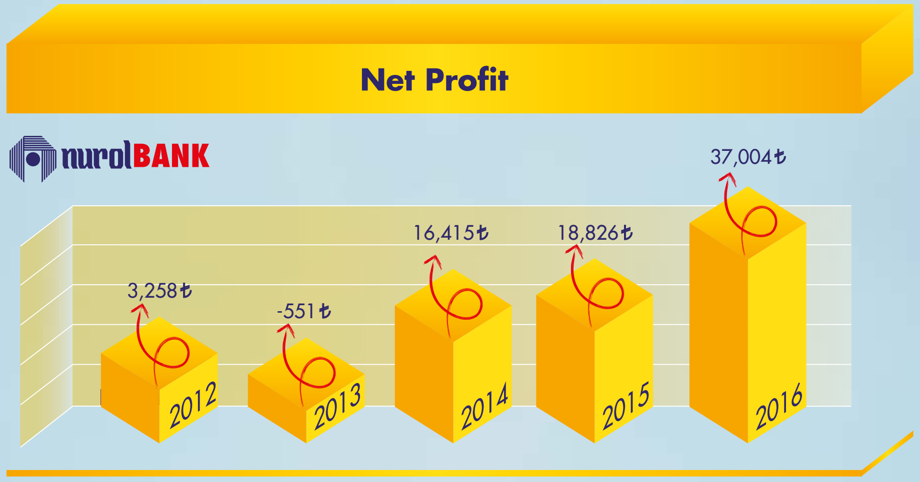
PERFORMANCE RATIOS

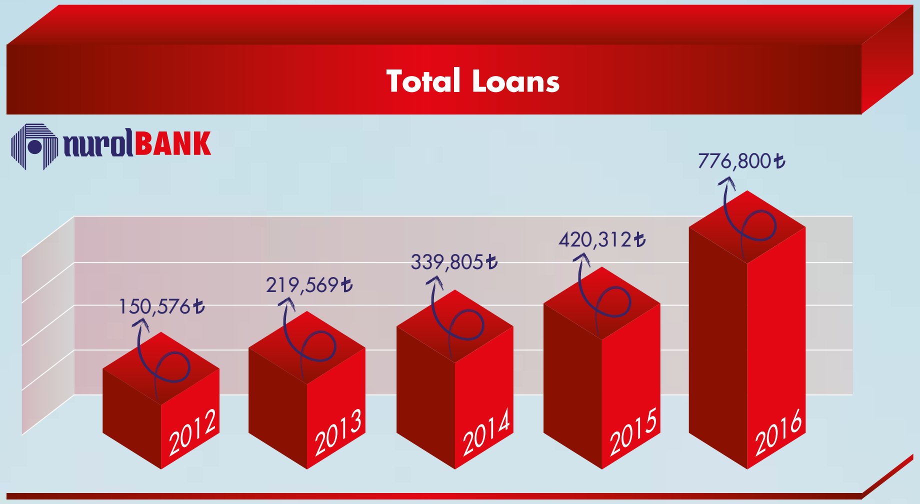
Ratios (%)	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Capital Adequacy Standard Ratio	17.34%	21.66%	16.88%	14.20%	19.01%
Average Return on Equity (By Profit Before Tax)	32.99%	22.52%	23.23%	-1.11%	5.07%
Average Return on Assets (By Profit Before Tax)	4.89%	3.67%	3.89%	-0.30%	1.99%
Fixed Assets / Equities	15.06%	5.42%	11.36%	4.20%	3.22%
Fixed Assets / Total Assets	2.03%	0.93%	1.75%	0.79%	1.36%
Interest Bearing Assets / Total Assets	81.83%	91.10%	94.96%	94.38%	91.85%
Loans / Total Assets	66.15%	58.43%	53.58%	50.71%	60.60%

STRATEGIC ACTIONS





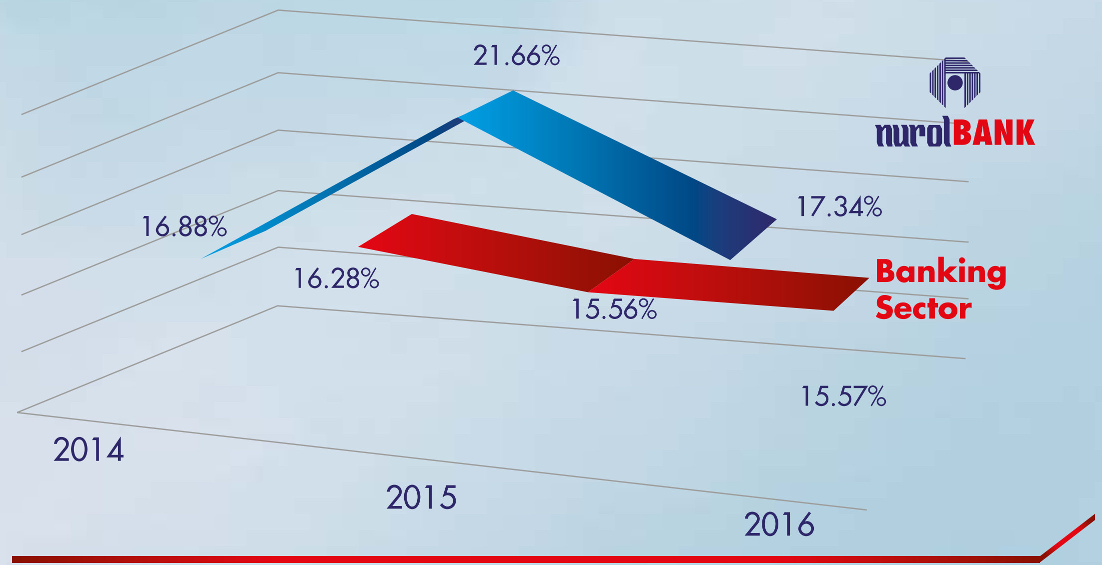




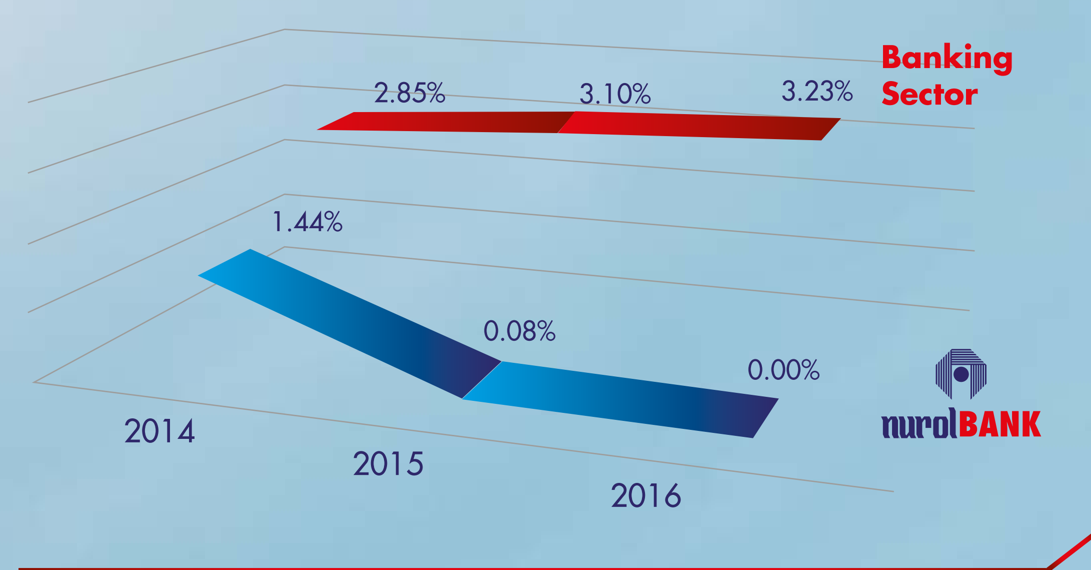
BALANCING ON WAVES

STEERING INVESTMENTS

Capital Adequacy Rate

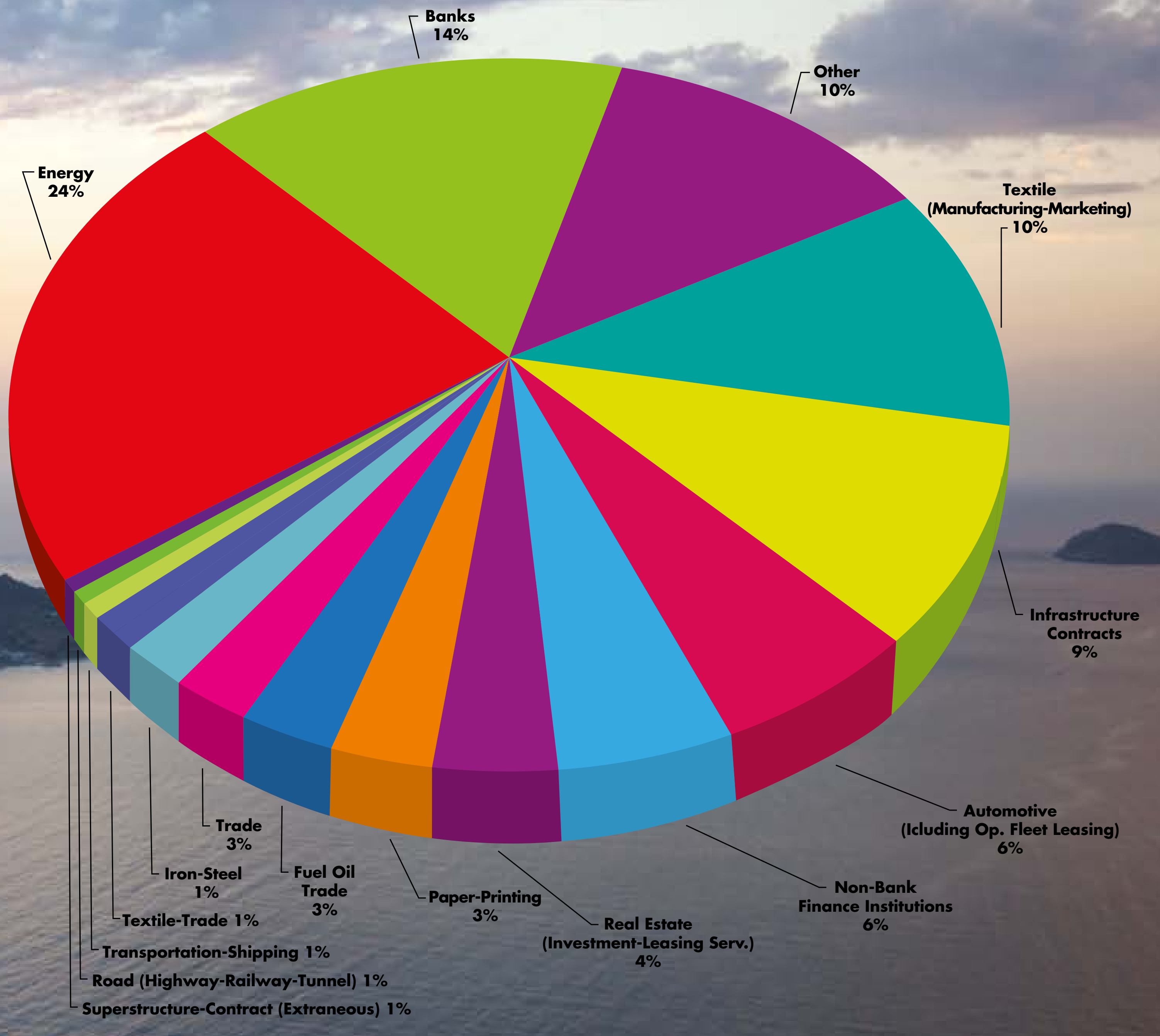


Ratio of Non-Performing Loans



FORESEEING RISKS

DISTRIBUTION OF TOTAL RISKS BY INDUSTRY



NUROLBANK 2017 TARGETS and EXPECTATIONS

- Inclusion of firms operating in the commercial segment in our banking portfolio which currently covers Corporate Banking, thereby increasing the diversity of sectors,
- Acting as an intermediary for bond issuance of the private sector, therefore creating synergy which can increase profits from interest rates and commission fees,
- Ensuring customer diversity, and development of new products and services in line with accurate identification of customers' needs,
- Strengthening the structure of sources by issuing debt instruments with various maturities.

We aim to walk towards these targets by continuously observing the balance between the customers in- and outside the group, taking measures to increase efficiency, ensuring efficient evaluation of the sources to be generated from bond/bill issuance by our Bank, maintaining efforts to enhance the recognition of the bank, and taking all these steps in line with systematic risk analyses and controls.

Project Financing and Business Development

Investment banking primarily aims to identify corporate and commercial customers' needs and craft "tailor-made" solutions that suit their requests, demands and structures. As Nurolbank and as the Group, we tap into our vast experience and knowledge in transportation, energy and telecommunication industries while carrying out project feasibility analyses in the scope of key infrastructure investment projects. Supporting such projects, we earn strategic/financial partners and provide consulting services in the fields of structured finance and project finance.

Nurolbank boasts a fully-equipped team that can play key roles in each phase of a sound and productive project, offering a wealth of products ranging from mid- and long-term finance to bridging loans.

Corporate Finance

Relying on a strong and qualified team, Nurolbank renders corporate finance-related consulting services, such as consulting on financing solutions to ensure domestic and international institutions make the most of capital and borrowing markets, and consulting on mergers and acquisitions, mediation in public offerings, financial restructuring, and privatization projects.

Our corporate finance team offers six main services:
- Financial restructuring
- Mediation in public offerings
- Company mergers and acquisitions
- Consulting on Privatization
- Financial and/or Strategic partner
- Private capital or similar investments

Thanks to its portfolio of credit customers, our bank enjoys the opportunity to closely follow up many firms and industries in Turkey. It has also accumulated vast knowledge through exemplary projects carried out either by the bank or the group and the relations established with international and national institutions throughout these projects. Such knowledge and experience enhances Nurolbank's capacity to spot the diverse needs of each customer and craft custom solutions while enabling our bank to achieve a distinct position in the field of investment banking in Turkey.

Relying on the know-how arising from the group's experience in the real estate industry, which has been rapidly growing in parallel with an improving Turkish economy and expanding capital stock, Nurolbank also offers consulting services to real estate investment partners.

Our department aims to identify growing businesses in the industries we picked in 2016, provide merger and acquisition consulting to potential firms within the scope of M&A by benefiting from our international contacts, act as an intermediary to find financial partners for firms in need of finance, offer such firms financing products with low-risk sources tailored to their financial needs, and contribute to the return on assets that our bank can derive.

The Treasury

Our Treasury Department is responsible for fulfilling obligations to such supervising and regulating agencies as the Turkish Central Bank, the Banking Supervision and Regulation Agency and Capital Markets Board and for managing our Bank's liquidity and balance sheet. Our main tasks include fulfilling all our undertakings promptly and thoroughly thanks to our experience and knowledge in treasury services, ensuring liquidity by considering growth and strategies, diversifying our balance sheet, finding alternative investment channels, diversifying and minimizing risks, decreasing costs and increasing profits, and following additional obligations and legal ratios.

For the Treasury Department, 2016 was a year in which significant volume increases were observed in major fields of activity, as in 2015. Our Department has successfully positioned itself vis-à-vis market developments; taken necessary actions together with a team of experienced professionals and experts to guard the Bank's standing as well as avoiding any liquidity-related bottlenecks thanks to the right timing, ensuring rapid information flows, and helping customers access first-hand information about the market. In 2016, the Nurol Investment Bank Treasury Department successfully increased productivity and achieved sustainable profitability.

In 2017, we will continue to carry the product range beyond current treasury products in order to contribute to the Bank's profitability and efficiency; manage risks revolving around markets, exchange rates, interests, liquidity and operations effectively; ensure the necessary flow of information through market analyses; and support customers with regards to product pricing.

In 2017, we will continue to make a difference with our expert team and our innovative approach.

Financial Institutions and Investor Relations

The Financial Institutions and Investor Relations Department works to achieve broader recognition of the Bank in national and international markets; maintain existing correspondent relations with national and international banks and institutions established and strengthened through the transactions of the Treasury Department; and help establish contacts with new organizations and institutions in line with future needs as well as issuing debt instruments for the Bank through Capital Markets. In 2016, the Department issued 870 million TL, in total, in debt instruments, as 15 separate bond and bill issues.

In 2016, the Treasury and Financial Institutions Department worked hard to reinforce the relations with correspondent banks; establish new relations in line with emerging needs and working opportunities; craft solutions with alternative products to address customers' needs; contribute to intensive marketing activities of the branches and fully engage with the project finance department to ensure utilization of advanced products that fulfill project finance needs, and all these efforts have reflected on profitability and transaction volumes. Throughout the year, the Bank has cemented customer satisfaction thanks to sound management of relations, sustainable transaction volumes with correspondent banks, and quality services, both at home and abroad, while providing finance from correspondent banks despite fluctuations in financial markets. The department boasts firm correspondent relations, with an open mind to new relations and development, as required by the economic conjuncture.

Research and development practices for new services and activities

No research and development study has been conducted with regards to new services and activities in the relevant period.

Members of the Board of Directors

1 Ziya Akkurt
Chairman of the Board of Directors

2 Mehmet Oğuz Çarmıklı
Vice-Chairman of the Board of Directors

3 Mehmet Mete Başol
Member of the Board of Directors

4 Dr. Eyüp Sabri Çarmıklı
Member of the Board of Directors

5 Gürhan Çarmıklı
Member of the Board of Directors

6 Ahmet Kerim Kemahlı
Member of the Board of Directors

7 Ceyda Çarmıklı Kılıçaslan
Member of the Board of Directors

8 Yusuf Serbest
Member of the Board of Directors

9 Ahmet Şirin
Member of the Board of Directors

10 Özgür Altuntaş
Member of the Board of Directors and General Manager

MEMBERS OF THE BOARD OF DIRECTORS

Ziya AKKURT
Chairman of the Board of Directors

Ziya Akkurt, a graduate of the METU Public Administration Department, started his career in Interbank in 1983. He worked in the BNP-AK-Dresdner Bank Credit and Marketing Department, and Osmanlı Bank / Banque Paribas / Paris International Banking Department, respectively. Akkurt started to work in the Akbank Corporate Banking Department in 1996, and acted as the CEO between 2009-2012 after working in various departments in Akbank over the years. Between 1996-2012, he acted as a Board Member as the managing director responsible for loans in BNP-AK-Dresdner Bank, Akbank A.G, BNP-AK-Dresdner Leasing, Ak Yatırım A.Ş. Ziya Akkurt serves as the Chairman of the Board of Directors of Nurol Yatırım Bankası A.Ş. as from February 2016.

Mehmet Oğuz ÇARMIKLI
Vice-Chairman of the Board of Directors

M. Oğuz Çarmıklı is a graduate of the Department of Civil Engineering under the Yıldız School of Engineering at Istanbul State Engineering and Architecture Academy. He worked as a senior executive at Nurol İnşaat, which later became Nurol İnşaat ve Ticaret A.Ş., the first company of the Nurol Group of Companies. Since 1999, he has been acting as the Vice Chairman of the Board of Nurol Investment Bank and as a member of the Pricing Committee as from 13.12.2011.

Dr. Eyüp Sabri ÇARMIKLI
Member of the Board of Directors

He graduated from the Political Sciences Department of Essex University in 1997. He continued his academic career at the University of Westminister with a Master's Degree in International Relations and Political Theory in 2001. He completed his graduate studies in Recent History and Politics at Birkbeck, University of London in 2002. He completed his PhD studies in Political Science at the University of Westminister in 2011. He started his professional working life as an executive at the Riyadh branch of Nurol İnşaat Ticaret A.Ş. between 1991-1992. He worked as Field Development Department Manager in Nurol Inşaat Ticaret A.Ş. between 1992-1993. He served as the General Manager in Nurol Pazarlama ve Dış Ticaret A.Ş. between 1993-1994. He has been serving as a member of the Board of Directors of Nurol Holding A.Ş. since 1994. He also started to serve as a member of the Board of Directors of Nurolbank in September 2016.

MEMBERS OF THE BOARD OF DIRECTORS

Ceyda ÇARMIKLI KILIÇASLAN
Member of the Board of Directors

Ceyda ÇARMIKLI graduated from the Department of Economics, Bilkent University. She completed the MBA program of Pepperdine University. Having started working for Arthur Andersen in 2000, she later served the Nurol Investment Bank and Nurol Holding A.Ş. She has been a Board Member since 2008 and Credit Committee Member since 2011 in Nurol Investment Bank.

Ahmet Kerim KEMAHLI
Member of the Board of Directors

A graduate of St. Edwards School, Oxford. He completed the Business Organization program at Heriot-Watt University. In 1990, he started working for West LB, followed by Finansbank, Abalıoğlu Holding and Çelebi Holding, respectively. He has been acting as the Nurol Holding Finance Coordinator since 2010, a Board Member for Nurol Investment Bank since 2011, and an Audit Committee Member since 2014.

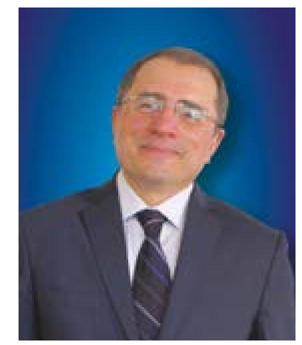
Mehmet Mete BAŞOL
Member of the Board of Directors

He received a B.S. from the Department of Economics, Arizona University. Having embarked upon the profession in 1984, he worked in several positions at Interbank, Bankers Trust, and Deutsche Bank, respectively, in addition to acting as the Executive Director of the Public Banks' Board. He still holds the titles of Board Member and Advisor for several companies. Since August 2014, he has been a Board Member and Corporate Governance Committee Member at Nurol Yatırım Bankası A.Ş.

MEMBERS OF THE BOARD OF DIRECTORS

Gürhan ÇARMIKLI
Member of the Board of Directors

Gürhan ÇARMIKLI graduated from the Department of Economics, Faculty of Economics, Administrative and Social Sciences and from the Department of Business Information Management, Faculty of Business Administration at Bilkent University. He has been a member of Nurolbank Board of Directors since May 2016. He started his career at the Nurol Holding Inc. Finance Department in 2003. He worked for the Accounting and Finance departments in FNSS A.Ş. between 2007-2008. He continued his career in the Nurol Holding A.Ş. Finance department between 2008-2011. He has been a Board Member of Nurol İnşaat A.Ş. since December 2001.



Ahmet ŞİRİN
Member of the Board of Directors

A graduate of the Faculty of Political Sciences, Ankara University. He pursued an MA at the University of Leeds. His professional career started at the Inspection Committee of the Ministry of Finance in 1980, followed by titles including Head of Office at Directorate General of Revenues, Deputy Undersecretary at Ministry of Finance, Head of Finance at Ministry of Public Works and Settlement, Vice President at BRSA (Banking Regulation and Supervision Agency), and Advisor to the BRSA Chairman. Since July 2013, he has been acting as a Board Member for Nurol Yatırım Bankası A.Ş., Audit Committee Chairman and Corporate Governance Committee Chairman.

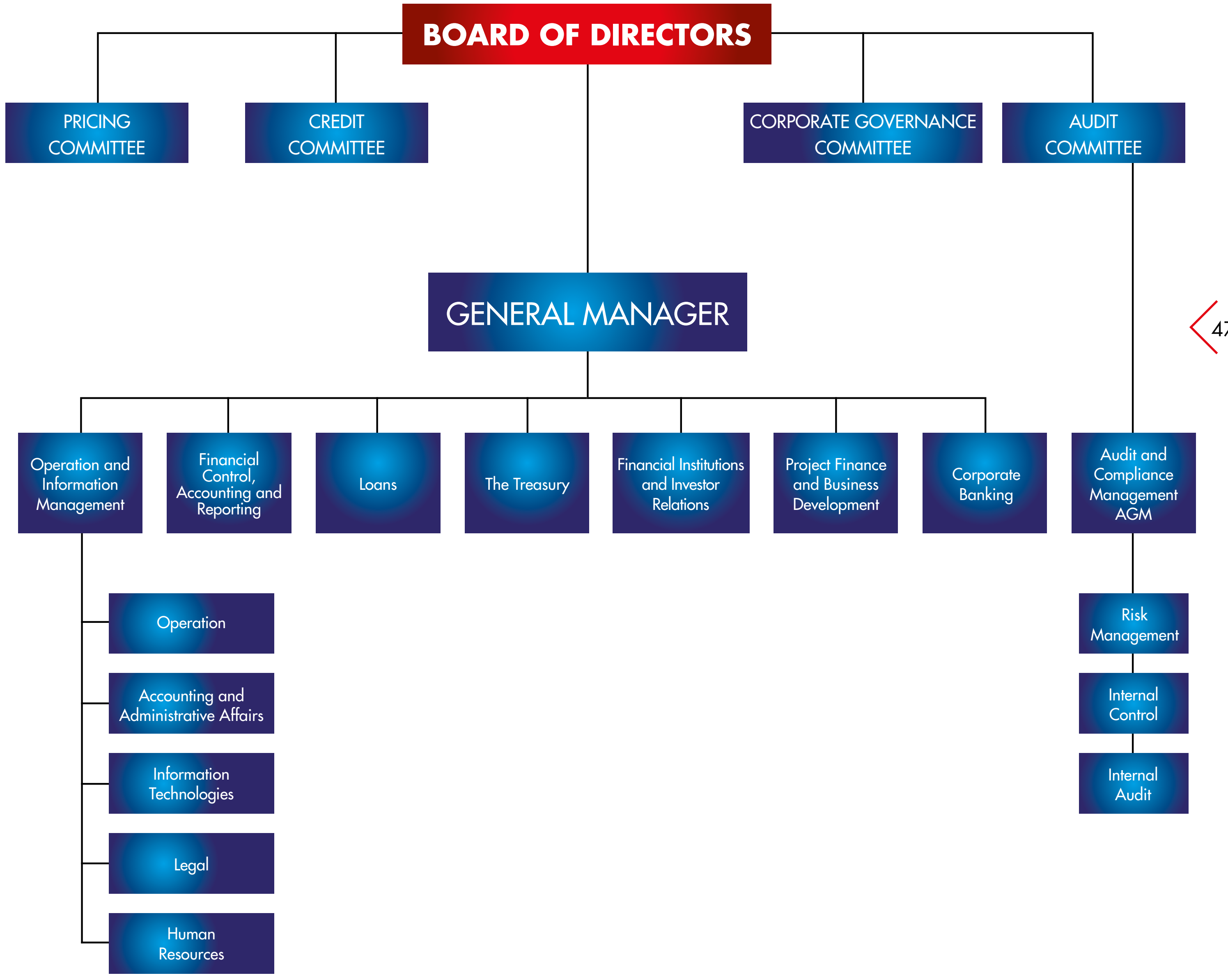
Yusuf SERBEST
Member of the Board of Directors

He graduated from the Department of Business Administration, Istanbul University. His professional life started in 1989 at the Treasury Department of Töbank T.A.Ş., followed by Nurol Menkul Kıymetler A.Ş. (Nurol Securities), in addition to his titles, including Deputy Chairman of the Board at Istanbul Stock Exchange and Executive Board Member at Aydın Örme San. Ve Tic. A.Ş. Since 2001, he has been acting as a Board Member for Nurol Investment Bank.

Özgür ALTUNTAŞ
Member of the Board of Directors and General Manager

He graduated from the Department of Managerial Engineering, Istanbul Technical University. Joining the Istanbul Bankers Trust in 1993, he worked for Garanti Bank, AMEX Bank, Credit Suisse and Morgan Stanley in Amsterdam, Bucharest and London, respectively. He held the title of Emerging Markets Director and President of the Turkey Region at Morgan Stanley. He returned to Istanbul in August 2011 and worked for Royal Bank of Scotland as Managing Director for two years until June 2013. On 16 September 2013, he became a Board Member and General Manager for Nurol Yatırım Bankası A.Ş.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ ORGANISATION CHART



Senior Management

1 Özgür ALTUNTAŞ
Member of the Board of Directors and General Manager

2 Zafer Babür HAKARAR
Treasury, Chief of Assistant General Managers

3 Dr. Murat ÇİMEN
Investment Banking, Chief of Assistant General Managers

4 Ahmet Murat KAVURGA
Operations and Information Management, Assistant General Manager

5 Yeliz BİLGİN
Financial Institutions and Investor Relations, Assistant General Manager

6 Semih Subutay NEZİR
Audit and Compliance Management, Assistant General Manager

7 Serhat KUTLU
Corporate Banking, Assistant General Manager

SENIOR MANAGEMENT

Özgür ALTUNTAŞ
Member of the Board of Directors and General Manager

He graduated from the Department of Managerial Engineering, Istanbul Technical University. Joining the Istanbul Bankers Trust in 1993, he worked for Garanti Bank, AMEX Bank, Credit Suisse and Morgan Stanley in Amsterdam, Bucharest and London, respectively. He held the title of Emerging Markets Director and President of the Turkey Region at Morgan Stanley. He returned to Istanbul in August 2011 and worked for Royal Bank of Scotland as Managing Director for two years until June 2013. On 16 September 2013, he became a Board Member and General Manager for Nurol Yatırım Bankası A.Ş.

Zafer Babür HAKARAR
Treasury, Chief of Assistant General Managers

He graduated from the Department of Mechanical Engineering, Boğaziçi University. In 1995, he started working as a Specialist in Finansbank, followed by Credit Europe in Amsterdam, and Tosyalı Holding under the title of the Finance and Business Development Director. Z. Babür Hakarar has been acting as Chief of Assistant General Managers responsible for Treasury in Nurol Yatırım Bankası A.Ş. since September 2013.

Dr. Murat ÇİMEN
Project Finance and Business Development, Chief of Assistant General Managers

A graduate of Civil Engineering, Istanbul Technical University. He obtained his MA and PhD degrees from Boğaziçi University. In 1996, he started working for Interbank. Late, in 1999, he joined Nurol Investment Bank, holding various titles, including Senior Specialist in the Project Finance and Leasing Department, Head of Investment Banking, and Chief of Assistant General Managers responsible for Investment Banking. Since September 2013, he has been acting as Chief of Assistant General Managers in Investment Banking Department.

SENIOR MANAGEMENT

Ahmet Murat KAVURGA
Operations and Information Management, Assistant General Manager

A graduate of the Department of Foreign Languages, Marmara University. Kavurga started working for Adabank in 1986 as a Senior Officer. Then, he joined Chase Manhattan Bank Turkey, Garanti Bank Romania and Credit Europe Bank Moscow, respectively. Since February 2014, he has been acting as an Assistant General Manager responsible for Operations and Information Management in Nurolbank.

Semih Subutay NEZİR
Audit and Compliance Management, Assistant General Manager

A graduate of Economics, Faculty of Economics and Administrative Sciences, Middle East Technical University. In 1986, he started working for Interbank. Later, he served in Esbank Headquarters holding the title of Head of Credit Follow-up and Monitoring Section. He joined Nurol Investment Bank in 2001 and was appointed as Assistant General Manager responsible for Audit and Compliance Management in March 2014.

Yeliz BİLGİN
Financial Institutions and Investor Relations, Assistant General Manager

She graduated from the Department of Business Administration, Marmara University. She started her career in 1998, as a Treasury Specialist in Finansbank and joined the Treasury and Financial Institutions Department of Nurol Investment Bank in 2007. She has been acting as the Assistant General Manager in Financial Institutions and Investor Relations Department since April 2015.

Serhat KUTLU
Corporate Banking, Assistant General Manager

He graduated from Political Sciences and Public Administration, Middle East Technical University. He completed his MBA degree at Yeditepe University. In 1995, he started forking for Finansbank as a Trainee Manager (MT) and went on to serve as Finans Leasing Marketing Officer, Finansbank Corporate Banking Marketing Manager, Oyakbank Mecidiyeköy Corporate Branch Manager, ING Bank Corporate Banking Group President, Sardes Factoring A.Ş. General Manager and Turkish Factoring A.Ş. General Manager. Since November 2014, he has been acting as Assistant General Manager responsible for Corporate Banking at Nurol Investment Bank.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee

The Committee was established to monitor whether or not the Bank is compliant with the Bank's internal policies and implementation procedures approved by the Board of Directors, and the provisions regarding internal control, as set forth in the BRSA's Regulation on Banks' Internal Systems published in the Official Gazette of 11.07.2014 issue 29057. The Committee also aims to ensure that audit and monitoring activities of the Board are duly performed. The Audit Committee convened 11 times in 2016 in order to submit proposals to the Board of Directors.

Title	Full Name	Main Title
Chairman	Ahmet ŞİRİN	Member of the Board of Directors
Member	Ahmet Kerim KEMAHLI	Member of the Board of Directors

Corporate Governance Committee

The Committee was established to monitor and manage the Bank's corporate governance procedures, as stipulated in Article 22 of Banking Law No. 5411. It carries out its tasks in accordance with the provisions of BRSA's "Regulation on Corporate Governance Principles of Banks" published in the Official Gazette of 01.11.2006 issue 26333. The Committee operates under the Board of Directors. It convened twice in 2016 to monitor and improve the Bank's compliance with corporate governance principles, and to submit proposals to the Board of Directors.

Title	Full Name	Main Title
Chairman	Ahmet ŞİRİN	Member of the Board of Directors
Member	Mehmet Mete BAŞOL	Member of the Board of Directors

Pricing Committee

The Committee operates under the Board of Directors. It was established upon the Board Resolution dated 13.12.2011 and numbered 449, in accordance with BRSA's "Regulation on Corporate Governance Principles of Banks" published in the Official Gazette of 01.11.2006 issue 26333, the relevant provision of which was as follows: "A Pricing Committee shall be established which consists of at least 2 members to monitor and audit pricing practices on behalf of the Board of Directors". The Pricing Committee convened once in 2016 in order to submit pricing suggestions to the Board of Directors.

Title	Full Name	Main Title
Chairman	Mehmet Oğuz ÇARMIKLI	Vice-Chairman of the Board of Directors
Member	Ahmet Kerim KEMAHLI	Member of the Board of Directors

Disciplinary and Personnel Committee

It was established to observe and enforce the mandatory provisions of Labor Law No. 4857 and the relevant legislation, including those on the responsibilities of Bank personnel, conditions of service, personal rights and disciplinary procedures, upon the proposal of the Human Resources department and approval of the General Manager.

Directly reporting to the General Manager, the Committee identifies levels of misbehavior and possible damages arising from procedures and actions that are determined to be subject to disciplinary punishment in accordance with Labor Law, other legislation, Bank's regulations and disciplinary rules. Chaired by the General Manager, the Committee convenes with the participation of relevant executives when necessary and takes resolutions on relevant agenda items.

Title	Full Name	Main Title
Chairman	Özgür ALTUNTAŞ	Member of the Board of Directors - General Manager
Member	Dr. Murat ÇİMEN	Investment Banking, Chief of Assistant General Managers
Member	Ahmet Murat KAVURGA	Operations and Information Management, Assistant General Manager

Information Systems Strategy Committee

The Committee operates under the Board of Directors. It operates within the framework of the "Communiqué on the Principles to Be Taken as a Basis for the Management of Information Systems in Banks" published in the Official Gazette of 14.09.2007, issue 26643. It informs the Board of strategic coherence in order to enable decisions on the management and administration of IT-related legislation/provisions, determination of strategic actions, and the resolution on IT governance goals. It was established by the Board resolution dated 17/06/2008 and numbered 336 to incorporate IT related matters on the agenda of corporate governance at the level of the Board. It convened 3 times in 2016.

Title	Full Name	Main Title
Chairman	Özgür ALTUNTAŞ	Member of the Board of Directors - General Manager
Member	Zafer Babür HAKARAR	Treasury, Chief of Assistant General Managers
Member	Ahmet Murat KAVURGA	Operations and Information Management, Assistant General Manager
Member	Ayşegül CABOĞLU	Information Technologies Manager

The Credit Committee

Established pursuant to the BRSA's "Regulation on Credit Transactions of Banks", the Committee operates under the Board of Directors, in accordance with the working procedures set forth in the same regulation. In our Bank, as a general practice, the Credit Committee convenes once a week, except in extraordinary situations.

The Credit Committee provides the Board of Directors with the results of the activities conducted by relevant units and its opinions on the required practices, and other matters that it deems critical, in order for the Bank to safely carry out its activities. It convened 38 times in 2016.

Title	Full Name	Main Title
Chairman	Ziya AKKURT	Chairman of the Board of Directors
Member	Ceyda ÇARMIKLI KILIÇASLAN	Member of the Board of Directors
Member	Özgür ALTUNTAŞ	Member of the Board of Directors - General Manager

Assets and Liabilities Committee

The Assets & Liabilities Committee convenes weekly under the chairmanship of the General Manager, and with the participation of Assistant General Managers and Unit Directors who are responsible for activities that may have an impact on the balance sheet. The meeting agenda comprises of the Bank's balance sheet, the business units' activities, general economic data, the evaluation of current political and economic developments, and the determination of weekly strategies. It convened 47 times in 2016.

Title	Full Name	Main Title
Chairman	Özgür ALTUNTAŞ	Member of the Board of Directors - General Manager
Member	Zafer Babür HAKARAR	Treasury, Chief of Assistant General Managers
Member	Serhat KUTLU	Corporate Banking, Assistant General Manager
Member	Recep GÜL	Financial Control Group Manager
Member	Melike BAYRAKTAR	Financial Control Manager

HUMAN RESOURCES PRACTICES

Our Success Is Driven By Our Employees

Capitalizing on our hard work, integrity, commitment to ethical values, and determination to add more value to our customers, our HR management policy, which targets continuous development in terms of professional expertise, competency and skills, represents the core of our success.

Performance Management

Our performance management system was expanded in the previous period of activity to determine periodical performance standards for our Bank and employees, to focus on our employees' development and reward their achievements.

Our performance plans have been restructured and put into practice in a way that covers competency and development planning, along with concrete, measurable, time-bound targets.

Employee Development

Our HR policy aims to ensure that all our employees can swiftly adapt to the Bank's development; have a broad vision of investment banking; are focused on generating solutions for our customers' needs; guarantee the sustainability of our quality service approach; and are welcoming to new ideas.

Therefore, we place ultimate importance on maximizing our employees' level of proficiency and knowledge, and equipping them with training sessions on multiple skills so that they can support and back each other up in critical business flows.

In 2016, our employees attended training sessions and seminars in the fields deemed necessary, within the framework of our continuous development approach.

Throughout the activity period, our employees also attended vocational training and certification programs organized by the Banks' Association of Turkey, the Capital Markets Board and the Istanbul Stock Exchange.

As of 2016 year-end, we have 44 employees, 92% of whom are university graduates, with an average age of 39. The Bank's average seniority is 5.7 years; however our employees' average experience in the industry is 13 years. 41% of our employees are female, and the rate of female executives is 38%.

CORPORATE GOVERNANCE, ETHICS REQUIREMENTS AND PRACTICES

Statement of Compliance with Corporate Governance and Ethics Requirements, and commitment to transparency and ethical values are all-time top priorities for our Bank.

Social Responsibility

Prepared in line with Social Responsibility principles, our Regulation on Corporate Governance and Ethics Requirements always guide us in our banking activities.

We observe benefits to the society in all our activities.

Following these ethics requirements, we fulfill our duty of social responsibility in collaboration with our employees and stakeholders, while encouraging our employees to volunteer for social responsibility activities in and outside the bank.

As set forth in the Bank Guideline of Compliance Policy and Compliance Risks, services offered by our Bank do not constitute any risks against public health, public safety or the environment. Furthermore, our Bank observes the same principles in choosing the projects to be financed, making sure that all our activities are carried out in compliance with these principles.

Stakeholders

Our Corporate Governance Committee coordinates our processes regarding the shareholders, as specified in our Corporate Governance and Ethics Requirements Regulation prepared according to the provisions of the BRSA's Regulation on the Banks' Corporate Governance and Ethics Requirements and put into force after approval by the Board of Directors of our Bank. In this regard;

For Our Shareholders:

- We inform our shareholders of any relevant updates pursuant to the principles of public disclosure.

- We make sure that our Bank helps shareholders, depositors, market participants and the public have access to a sufficient level of information on the bank's structure and goals so that they can evaluate the activities of the senior management in the management of the bank.

- We make relevant information on the bank available to the public, in a timely, thorough, clear, impartial, easily-accessible and equal manner to help relevant persons and organizations have a proper understanding of our Bank.

- We conduct public disclosure activities as part of which we consolidate and publish, based on Turkish Accounting Standards, the financial statements of our subsidiaries, jointly-controlled subsidiaries and affiliates which may or may not constitute a credit or financial institution, as of year-ends and March, June and September every year.

For our customers:

- In order to improve our corporation and services, we have developed systems and processes that allow customers to share their requests, recommendations or complaints.
- We use our website or dedicated phone line for such recommendations and complaints. The Customer Complaint Line and Arbitration Committee actively work to receive and handle customer complaints.

For our employees:

- We attach importance to employee development, notification, and engagement in management, and design our processes in this way.
- Internal notifications are coordinated and governed through the internal notification portal organized by our HR Department, employee meetings, employee satisfaction and feedback surveys, and performance planning and assessment processes.

Public Disclosure and Transparency

As stipulated in our Corporate Governance and Ethics Requirements Regulation prepared in light of the provisions in the BRSA's Regulation on the Banks' Corporate Governance and Ethics Requirements and which entered into force upon approval by our Board of Directors, we observe the principles of public disclosure and transparency stipulated as follows with regards to the Principles and Procedures of the Banks' Corporate Governance:

- Equality; Equal treatment of shareholders and stakeholders; prevention of possible conflicts of interests in all activities of Bank Management,
- Transparency; Prompt, accurate, thorough, clear, interpretable, low-cost and easily accessible disclosure of financial and non-financial information about the Bank, except trade secrets and information which is not publicly available yet.

- Responsibility: Ensuring, and auditing whether or not the activities carried out by Bank Management on behalf of the Bank comply with laws, Articles of Association and the Bank's internal regulations,
- Accountability: We fully observe the Board Members' obligation to be accountable for, primarily, the Bank's legal entity and thus, shareholders, ensuring transparency in corporate governance.

For the purposes of public disclosure, we actively use the website of our bank. We incorporate the following headlines and content on our website:

- Corporate (About Us, Our Vision and Our Mission, Our Strategy, The Chairman's Message, The General Manager's Message, Corporate Governance)
- Banking Services (Investment Banking, Corporate Banking)
- Investor Relations (Annual Reports, Audit Reports, Minutes of General Assembly Meetings, Governance Policies and Announcements (AML Policies, US Patriot Act, Public Disclosure Platform, Investors' Rights, Arbitration Committee of the Banks' Association of Turkey, BRSA Announcements, CMB Announcements, Product and Service Fees)
- Communication (Human Resources Policy, Career, Announcements, Job Application Form)
- Contact Us (Customer Complaints, Addresses)

INFORMATION ON TRANSACTIONS WITH THE BANK'S RISK GROUP

Our Bank offers commercial banking and investment banking services to Nurol Group companies via its branch and departments under the Headquarters.

The Bank's Scope of Activities:

- Any type and form of Cash and Non-Cash lending,
- Cash and deposit payment and fund transfer transactions, use of correspondent banking accounts,
- Selling and purchasing money market instruments,
- FX transactions, including effective transactions,
- Buying and selling of capital market instruments,
- Repurchase and reselling of capital market instruments,
- Financial leasing transactions,
- Derivative product transactions,
- Intermediary role in FX-based futures contracts,
- Interbank forward exchange transactions,
- Guarantee transactions.

Investment banking services include feasibility studies for projects developed either by the Nurol Group of Companies or by public and other private institutions for tender purposes; project finance; extending long-term investment loans or their syndication; extending high amount non-cash loans or their syndication; hedging/derivative products developed for the purposes of preventing interest rate or exchange rate risks; and intermediary roles in securing against non-standard risks (country-related risks, political risks, loss of profit risk, contract risks, etc.) of national and international projects; as well as leasing and factoring transactions.

ACTIVITIES FOR WHICH SUPPORT SERVICES ARE PROCURED PURSUANT TO THE REGULATION ON THE BANK'S PROCUREMENT OF SUPPORT SERVICES

Pursuant to the Regulation on the Banks' Procurement of Support Services published on 5.11.2011 by BRSA, support services are procured from the following providers:

- Intertech Bilgi İşlem ve Pazarlama Ticaret A.Ş. within the scope of the main banking system service
- Platin Serbest Muhasebeci Mali Müşavirlik Limited Şirketi within the scope of payroll transactions and reporting, preparation of legal declarations and forms as well as the preparation of tax returns
- Bonded Kayıt Sistemleri Dağıtım Hizmetleri ve Ticaret A.Ş. within the scope of archive services
- Credence Risk Yönetimi ve Danışmanlık A.Ş. within the

scope of the call center and archive service.

Audit Committee Report

Distinguished Business Partners,

According to relevant legislation, the Audit Committee assesses in periodical meetings the activities carried out by internal systems (Internal Audit, Internal Control and Risk Management) and takes resolutions, on measures, practices and other matters deemed important for the Bank to observe, and submits related opinions to the attention of the Board of Directors.

The Audit Committee convened eleven times throughout 2016, and took various resolutions regarding the practices of internal systems. An Audit Committee Annual Report, which covered a time span of the first six months of 2016, was published, examined by the Audit Committee and submitted to the Board of Directors. Moreover, assessment letters were prepared with regards to the reports on the activities audited, and actions were taken accordingly.

Emergency drills are performed in the Bank on an annual basis. A scenario for the drill is drafted by the emergency working group before the actual implementation, and this scenario is examined by the Executive Committee which will announce its approval for implementation. Compliant with the drill scenario, emergency drills are implemented with extensive participation of all business units.

Internal Control Department

Operating under the Board of Directors, the Internal Control Department is structured to keep all financial and operational risks identified with regards to the activities under continuous and reasonable control, while ensuring that Bank's assets are protected; its activities are compliant with relevant legislation, the bank's internal legislation and regulations, internal policies, strategies and targets; and accounting and bookkeeping activities and the financial reporting system are safely implemented.

Performing risk- and process-oriented analyses and controls within the scope of the Bank's activities, the Internal Control Department is tasked to examine, monitor and assess the compliance, sufficiency and effectiveness of the controls as well as to report the findings to relevant parties.

Activities and transactions are continuously performed effectively, accurately, regularly and safely thanks to the functional allocation of tasks, authorizations and limits on transactions and approvals, system controls, post-transaction controls and other transaction-specific control mechanisms. Furthermore, IT controls are carried out as an extension and part of the process implementation controls.

Internal Control Department

Operational errors and deficiencies identified during internal control activities are first notified to the personnel carrying out the activity, and then necessary complementary and preventive measures are swiftly taken. Operational errors and deficiencies yet to be corrected are incorporated in relevant reports and saved in the database with corresponding operational risk matrix codes.

As part of the business plan for internal controls in 2016, 3 firms providing Banking Process services and 1 firm providing Support Services were subjected to onsite controls. In addition to remote controls under which the accuracy of the Bank's records is monitored, the bank's procedures and compliance with the legislation as well as other transactions are analyzed via sampling.As part of onsite controls, the compliance of transactions with internal and legal regulations has been monitored. Findings, opinions and recommendations have been primarily notified to relevant personnel responsible for relevant activities, depending on the risk level, importance, and whether or not a preventive/ corrective measure has been taken. Following necessary joint assessments, observations have been reported to the senior management and Audit Committee.

In order to ensure compliance with the regulations introduced by the Financial Crimes Investigation Board (MASAK) and carry out necessary works, the Internal Control Department Manager also acts as the MASAK Compliance Officer.

Internal Audit Department

The Internal Audit Department operates under the Board of Directors and performs the internal audit function in a way that covers all the activities of the Bank. Accordingly, the Internal Audit Department audits and inspects whether or not the Bank's activities are conducted in compliance with the relevant laws, and internal strategies, policies, principles and targets of the Bank. For the internal audit system to fulfill its intended purpose and gain the expected benefits, all the activities of the Bank are periodically audited without any restrictions.

The identification of activities to be audited is based on a risk-oriented approach along with the requirements of the relevant legislation. The Internal Audit Department audits the Bank's activities against relevant laws and other legislation, and internal strategies and targets of the Bank, while assessing the effectiveness and sufficiency of internal control and risk management systems. As part of periodical and risk-based audits, the Department assesses the compliance of activities with the relevant legislation; sufficiency, accuracy and effectiveness of internal regulations, and whether or not the reports, book entries and financial reports submitted to the BRSA and Senior Management are accurate, reliable and compliant with time restrictions.

Internal Audit Department

Audits are intended to identify deficiencies, errors and any possible misconduct in the activities of the Bank. The approach adopted in these studies aims to convey opinions and recommendations on how to prevent the re-occurrence of the issues identified, and how to use the Bank's sources in an effective and efficient manner.

The Internal Audit Department examines information systems in line with the principles and procedures stipulated under Section 5 "Principles Regarding Audits of Information Systems and Banking Processes" of the "Regulation on Principles of Auditing Bank Information Systems and Banking Processes to be Performed by Independent Audit Agencies".

Internal audits on risk management assess whether or not the results derived from risk measurement models and methods employed in the Bank are incorporated in daily risk management efforts. These audits examine pricing models and valuation systems used in the Bank, risks covered by the risk measurement models used in the Bank, and the accuracy and appropriateness of the data and assumptions used in these models. Reliability, integrity, and prompt accessibility of the source of data, as well as the accuracy of retrospective tests are also audited. The internal assessment process regarding the Bank's capital requirement is examined in line with the internal audit system within the scope of the legislation on this process and internal regulations of the Bank.

Audit reports issued after internal controls are shared with the Audit Committee, senior management and relevant departments. Efforts to eliminate findings are monitored by the Internal Audit Department. The Board of Directors closely follows up the efforts of Internal Audit Department through quarterly activity reports which are submitted by the Audit Committee.

Risk Management Department

Operating with an organization structure directly affiliated to the Board of Directors and independent of executive functions, the Risk Management Department carries out activities regarding the measurement, monitoring, control and reporting of the risks which are identified in line with relevant implementation principles and risk management policies and procedures approved and periodically reviewed by the Board.

The risk management system intends to define, measure, report, monitor and control the risks exposed, through policies, procedures and limits identified to monitor the nature and level of the activities, keep them under control and change the same when necessary. It also helps determine internal capital requirement in accordance with risk profiles. Taking into account the risk capacity of the Bank, the Board of Directors defines, and regularly reviews, the risk appetite level that indicates the level of risk it is willing to bear in order to achieve its targets.

Analyses, simulations, scenarios, stress tests and the Internal Capital Adequacy Assessment Process (ICAAP) report, as part of the risk management, play a role in the strategic decisions taken by the senior management of our Bank as well as supporting the decision-making mechanism.

Within the framework of risk management program, Risk Management Department makes risk analysis assessments in terms of the technical competency and potential risks of the organizations from which support services are procured.

INFORMATION REGARDING RISK MANAGEMENT POLICIES IMPLEMENTED BY TYPES OF RISKS

Credit Risk

Credit risk studies include measurement, analysis, reporting and monitoring of credit risks. The credit risk refers to the risk exposed in cases where the other party fails to fulfill its contractual obligations. Credit risks are managed through credit policies and procedures implemented in the Bank. In this framework, the credit risk s managed on the basis of criteria including but not limited to the structure and attributes of credit, provisions of the credit agreement and financial conditions, the structure of the risk profile until the maturity date in parallel with possible developments in the market, guarantees and collaterals, concentrations, and compliance with the limits set by the Board of Directors.

Credit allocation takes place within the limits determined separately for each borrower. Each customer who is engaged in a credit transaction has to be subjected to a credit limit allocated by the Board of Directors. Systematically, a customer is not allowed to exceed the credit risk limit.

Our credit portfolio is analyzed in terms of distribution and concentration of type of credit, currency, industry, credit borrower, and holding and group, taking into account criteria including average maturity dates and sensitivity to interest rates and these analyses are submitted as monthly reports to the Senior Management and the Audit Committee. Amounts calculated based on the credit risk are calculated with the standard approach method.

Counterparty credit risks are managed by means of credit limit allocation. The fair value method is taken as the basis in the calculation of counterparty credit risk. Country risk policy is taken into account in counterparty credit limit allocations.

The authority to identify guarantees to be accepted in counterparty limit allocations belongs to the Board of Directors with the approval of the Credit Committee. The Senior Management evaluates counterparty, country and sector risk and makes the decision to act in necessary situations

INFORMATION REGARDING RISK MANAGEMENT POLICIES IMPLEMENTED BY TYPES OF RISKS

Market Risk

In order to manage and limit market risks, internal limits have been set in addition to legal limits. Market risk limits as well as the process, control and early warning limits are identified with the approval of the Board of Directors and announced internally. Identified risk limits are regularly followed and reported by the Risk Management Department.

VAR measurements calculated using internal methods, and exchange rate and overall market risks calculated using standard methods, as well as stress tests and scenarios, are analyzed within the scope of the market risk and regularly reported by the Risk Management Department to the Senior Management and Audit Committee.

Operational Risk

Operational risk studies include identification, classification and analyses of the risks. Amounts calculated based on operational risk are found using the key indicator approach. In measuring operational risks, operational risk loss data is systematically collected and evaluated in an operational risk database, in compliance with Basel II criteria. With the operational risk limit determined using key indicators and records retained from the database, loss and near-loss amounts are evaluated and reported to the Senior Management and Audit Committee regularly

Interest Rate Risk Arising From Banking Accounts

With regards to the interest rate risk arising from banking accounts, liquidity gap and interest rate sensitivity analyses are carried out in order to determine the interest rate risk faced by the Bank due to maturity mismatch in off-balance and in balance positions and all analyses and ratios calculated using the standard shock method are reported on a monthly basis to the Senior Management and Audit Committee.

The interest rate risk is measured using the standard shock method by the Risk Management Department, and reported monthly to the Banking Regulation and Supervision Agency. The risk appetite and early warning limits are identified for the follow-up of interest rate risk.

INFORMATION REGARDING RISK MANAGEMENT POLICIES IMPLEMENTED BY TYPES OF RISKS

Liquidity Risk

Liquidity risk is managed by the Treasury and Financial Institutions Department pursuant to the risk management policies approved by the Board of Directors, in order to take necessary measures in a timely and accurate manner to prevent liquidity bottlenecks that may arise from market conditions and the Bank's balance sheet structure.

To ensure effective management of liquidity risk, Bank and market data is regularly monitored and balance sheet, maturity structure of assets and liabilities, and market borrowing volumes are analyzed. Liquidity risk is managed by considering the early warning limits identified as well as ensuring compliance with the legal liquidity ratio as the risk appetite.

While calculating and following up liquidity risk, cash flows, gap analyses, stress tests and scenario analyses are periodically reported by the Risk Management Department to the Senior Management and Audit Committee.

Other Risks

Such risks considered under secondary structural block as country and transfer risks, strategic risks, recognition risk, legal risk, concentration and residual risks are managed in the Bank in compliance with the policies approved by the Board of Directors by considering their level of importance.

AGENDA OF THE ORDINARY GENERAL ASSEMBLY

Agenda of 2016 Ordinary General Assembly Meeting to be Held on 27 March 2017

1- Opening Remarks and Election of the Chair to the Meeting,

2- Presentation of and discussion on the Annual Report of the BoD for 2016

3- Presentation of and discussion on the Independent Audit Agency's Report

4- Presentation, discussion and approval of the financial statements for 2016,

5- Release of each member of the Board of Directors from liability for the affairs of 2016,

6- Submission of assignments as a Member of the Board of Directors for the approval of the Board of Directors,

7- Election of Members of the Board of Directors and identification of their terms,

8- Discussion and resolution on BoD Members' remunerations and attendance fees,

9- Discussion and resolution on whether or not 2016 profits are to be distributed,

10- Discussion and resolution on whether or not to make premium payments to the personnel,

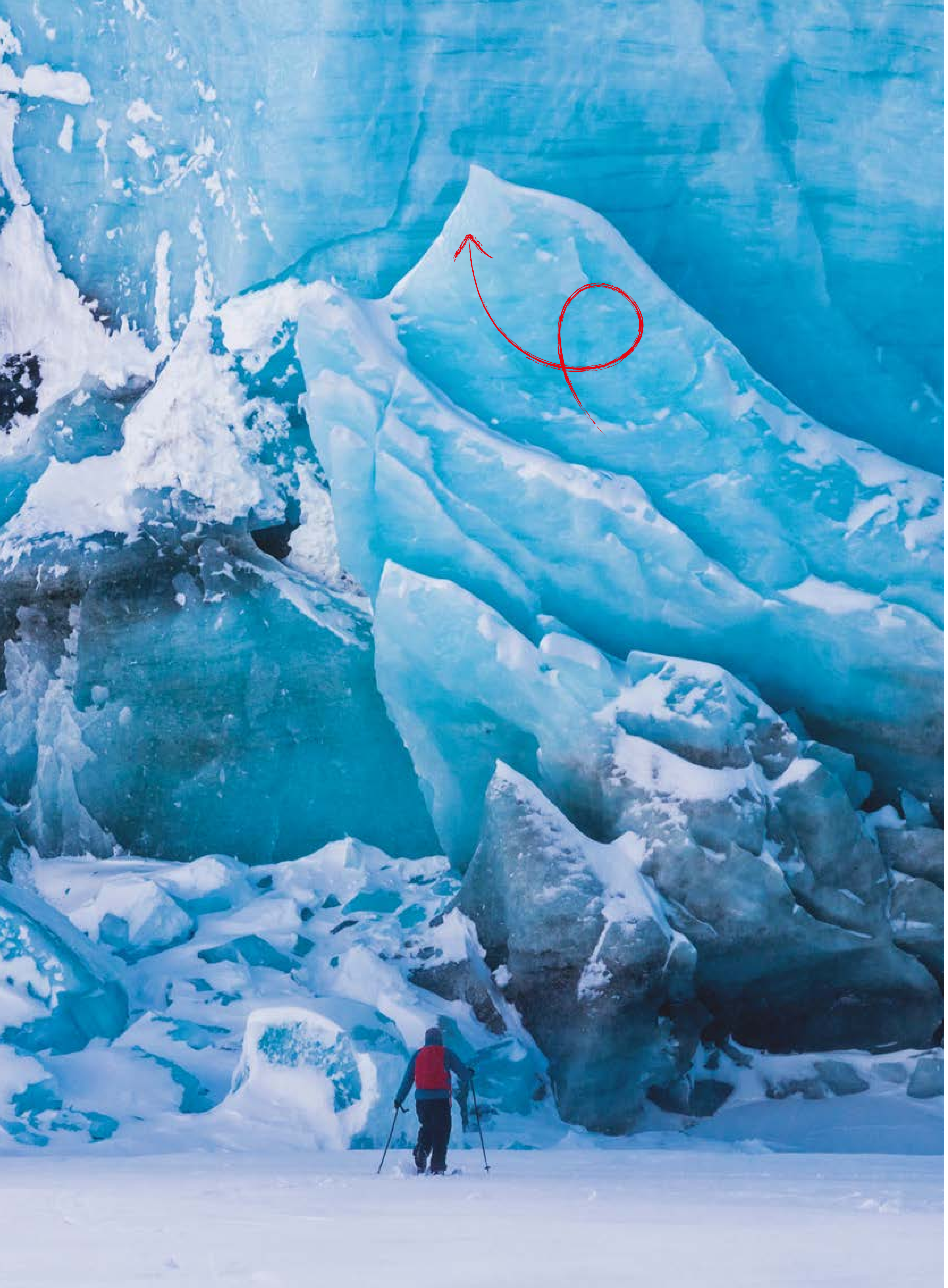
11- Discharge of the Independent Auditor (Audit Agency) for the activity period of 2016,

12- Election of the Independent Audit Agency for 2017,

13- Authorizing BoD to issue bonds, profit sharing certificates, financing bills, bank bills, asset-based securities, and other borrowing instruments to be accepted by laws,

14- Authorizing BoD Members as per the provisions of Articles 395 and 396 of the Turkish Commercial Code,

15- Wishes, opinions and closing remarks.



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

EY
Building a better working world
Güney Bağımsız Denetim ve SMMM AŞ
Eski Büyükdere Cad.
Orjin Maslak No:27
Maslak, Sarıyer 34398
İstanbul - Turkey
Tel : +90 212 315 30 00
Fax: +90 212 230 82 91
ey.com
Ticaret Sicil No: 479920-427502

Report on the Audit of the Financial Statements

To the Board of Directors of Nurol Yatırım Bankası A.Ş.

Opinion

We have audited the financial statements of Nurol Yatırım Bankası A.Ş. (the "Bank") which comprise the statement of financial position as at December 31, 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

EY
Building a better working world

Impairment of loans and advances

There is a potential risk that loans and advances are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of IFRS as determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. Accordingly, loans and advances to customer is a key area of judgement for the management. Accordingly, carrying amount of loans and customers might be greater than the estimated recoverable amounts, therefore the impairment test of these loans of advances is a key audit matter. Refer Note 9 to the financial statements relating to the impairment of loans and advances.

Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and advances. We also assessed whether impairment losses for loans and advances were reasonably determined in accordance with the requirements of IFRS. In addition we considered, assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to assessed the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them.

Revenue recognition of fees and commissions received

As disclosed in Notes 24 Fee and commission section, the recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Accordingly, recognition of fees and commissions is an area that requires assessment in an individual basis and is a subjective area, therefore fees and commissions is a key audit matter.

We tested the controls designed and applied by the Bank for accounting of fees and commissions including testing operating effectiveness of mitigation controls, if appropriate, and performed substantive procedures. We assessed that revenue for financial service fees are accounted in accordance with the requirements of IFRS. Finally, we assessed the completeness and accuracy of the related disclosures to assess compliance with disclosure requirements included in the financial statements.

Responsibilities of the Management and the Board of Directors for the financial statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors are responsible for overseeing the Bank's financial reporting process.

A member firm of Ernst & Young Global Limited

Building a better working world

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors

- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Building a better working world

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

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

Other Matter

The financial statements of the Bank as of December 31, 2015 were audited by another independent audit firm, who expressed an unqualified opinion in their audit reports dated March 11, 2016.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst &Young Global Limited

Damla Harman
Partner, SMMM

Istanbul, Turkey
February 14, 2017

A member firm of Ernst & Young Global Limited

TABLE OF CONTENTS

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
STATEMENTS OF FINANCIAL POSITION
AS OF 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

	Note	Audited 31 December 2016	Audited 31 December 2015
Assets			
Cash and cash equivalents	5	136,314	169,136
Reserve deposits at Central Bank	6	84,066	46,692
Derivative financial assets		2,593	23,049
Available for sale investments	8	45,514	34,584
Loans and advances to customers	9	777,401	431,711
Property and equipment		2,478	1,601
Investment property	12	19,920	3,427
Intangible assets		1,387	1,154
Deferred tax assets	19	3,082	-
Other assets	13	96,796	4,786
Total assets		1,169,551	716,140
Liabilities			
Funds borrowed	14	175,961	161,550
Debt securities issued	15	525,853	382,400
Other liabilities	17	224,100	35,038
Derivative financial instruments		12,703	457
Subordinated debts	16	53,364	-
Provisions	18	2,712	3,640
Current tax liability		6,640	-
Deferred tax liability	19	-	4,119
Total liabilities		1,001,233	587,204
Equity			
Share capital	22	45,000	45,000
Reserves	22	27,446	28,306
Retained earnings		95,772	55,630
Total equity		168,218	128,936
Total liabilities and equity		1,169,551	716,140

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2016	Audited 1 January 31 December 2015
Interest income	23	139,312	88,661
Interest expense	23	(56,253)	(42,041)
Net interest income		83,059	46,620
Fee and commission income	24	19,732	12,256
Fee and commission expense	24	(5,561)	(2,993)
Net fee and commission income		14,171	9,263
Net trading income / (loss)	25	(28,135)	(7,037)
Other operating income	26	8,150	(2,235)
		(19,985)	(9,272)
Operating income		77,245	46,611
Net impairment/recoveries on financial assets	9	(2,542)	(4,282)
Other provision expenses		(232)	(1,100)
Personnel expenses	28	(12,231)	(9,725)
Depreciation and amortization		(752)	(522)
Administrative expenses	29	(11,638)	(9,576)
Profit before income tax		49,850	21,406
Income tax expense	19	(8,767)	(5,025)
Profit from continued operations		41,083	16,381
Profit for the period		41,083	16,381
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets			
Gain / (Loss) arising during the period		(3,187)	4,751
Income tax relating to components of other comprehensive income	19	1,386	(403)
Other comprehensive income (loss) for the period, net of income tax		(1,801)	4,451
Total comprehensive income for the period		39,282	20,832

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

Audited	Note	Share capital	Fair value reserve of available for sale financial assets	Legal reserves	Retained earnings	Total equity
Balances at 1 January 2015		45,000	21,883	1,151	38,188	106,222
Transfer to reserves		-	-	821	(891)	(70)
Change in accounting policy		-	-	-	1,952	1,952
Total comprehensive income for the period						
- Profit for the period		-	-	-	16,381	16,381
Other comprehensive income for the period, net of tax		-	4,451	-	-	4,451
Total comprehensive income for the period		-	4,451	-	16,381	20,832
Balance at 31 December 2015		45,000	26,334	1,972	55,630	128,936
Balances at 1 January 2016		45,000	26,334	1,972	55,630	128,936
Transfer to reserves		-	-	941	(941)	-
Total comprehensive income for the period						
- Profit for the period		-	-	-	41,083	41,083
- Other comprehensive income for the period, net of tax		-	(1,801)	-	-	(1,801)
Total comprehensive income for the period		-	(1,801)	-	41,083	39,282
Balance at 31 December 2016		45,000	24,533	2,913	95,772	168,218

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2016(*)	Audited 1 January 31 December 2015(*)
Cash flows from operating activities			
Net profit for the period		41,083	16,381
Adjustments:			
Depreciation and amortisation	10,11	752	522
Current tax expense	19	14,582	1,966
Deferred tax (income)/expense	19	(5,815)	3,059
Provision for loan losses	8	2,542	4,282
Other provisions		232	1,100
Other accruals		(3,320)	(4,944)
Foreign exchange loss / (gain)		(6,322)	(7,700)
Fair value gain on investment property		(6,964)	-
		36,770	14,666
Changes in operating assets and liabilities			
Change in derivative financial assets		20,456	(17,913)
Change in loans and advances to customers		(348,358)	(70,480)
Change in reserve deposits		(37,593)	(29,216)
Change in other assets		(95,170)	7,810
Change in other liabilities		182,157	(170,015)
Change in derivative financial liabilities		12,246	(1,754)
Change in borrowings		14,411	41,851
Taxes paid		(5,378)	(7,328)
Net cash provided by / (used in) operating activities		(220,459)	(232,379)
Cash flows from investing activities			
Purchase of available for sale investments		(175,409)	(339,940)
Sale of of available for sale investments		161,768	368,528
Purchase of property and equipment		(1,340)	(1,531)
Purchase of intangible assets		(521)	(273)
Net cash (used in) / provided by investing activities		(15,502)	26,784
Proceeds from debt securities issued		746,690	514,970
Repayment from debt securities issued		(603,237)	(342,840)
Proceeds from subordinated debts		53,364	-
Net cash provided by /(used in) financing activities		196,817	172,130
Effect of foreign exchange rate change on cash and cash equivalents		6,322	7,700
Net increase in cash and cash equivalents		(32,822)	(25,765)
Cash and cash equivalents at 1 January	5	169,136	194,901
Cash and cash equivalents at 31 December	5	136,314	169,136

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 131,350 (31 December 2015: 83,586) and interest paid is amounting to TL 51,611 (31 December 2015: 36,144).

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

I. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the "Bank" or "Nurolbank") was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned controlled by the Nurol Holding A.Ş. Nurolbank operates as an investment bank and is also involved in corporate services such as financial leasing, lending and trade finance. According to the current legislation for investment banks, the Bank is not authorised to receive deposits from customers. The Bank's head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

The shareholders' structure of the Bank is as disclosed below:

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	35,171	78.16
Nurol İnşaat ve Tic. A.Ş.	7,182	15.96
Other	2,647	5.88

The shareholder having direct or indirect control over the shares of the Bank is Nurol Group. The Group has operations in construction, defence, finance, tourism, health, mining, real estate, marketing and manufacturing industries through 33 firms within the Nurol Group 4 joint ventures and 11 domestic-foreign associates and subsidiaries.

The Board of Directors of the Bank comprised the following members:

Ziya Akkurt	Chairman
M. Oğuz Çarmıklı	Deputy Chairman of Board
S. Ceyda Çarmıklı	Board Member
Ahmet Şirin	Board Member (Audit Committee Member)
Yusuf Serbest	Board Member
Mehmet Mete Başol	Board Member (Corporate Governance Committee Member)
Özgür Altuntaş	Board Member – General Manager
Ahmet Kerim Kemahlı	Board Member
Eyüp Sabri Çarmıklı	Board Member
Gürhan Çarmıklı	Board Member

II. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the unconsolidated financial statements as at 31 December 2016 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2016. The effects of these standards and interpretations on the Company's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2016 are as follows:

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)
IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Bank.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Bank.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants
IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)
IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:
• At cost
• In accordance with IFRS 9, or
• Using the equity method defined in IAS 28

II. The new standards, amendments and interpretations (continued)

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

Amendments issued to IFRS 10, IFRS 12 and IAS 28, address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IAS 1: Disclosure Initiative (Amendments to IAS 1)

Amendments issued to IAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the financial statements of the Bank.

Annual Improvements to IFRSs - 2012-2014 Cycle

IASB issued, Annual Improvements to IFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan

- IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report

- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located

- IAS 34 Interim Financial Reporting – clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

These amendments did not have significant impact on the financial position or performance of the Bank.

(Currency - In thousands of Turkish Lira)

II. The new standards, amendments and interpretations (continued)

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the unconsolidated financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the unconsolidated financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required.

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

IFRS 9 Financial Instruments - Final standard (2014)

The IASB published the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value.

(Currency - In thousands of Turkish Lira)

II. The new standards, amendments and interpretations (continued)

IFRS 9 Financial Instruments - Final standard (2014) (continued)

The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If the Bank applies this relief, it shall disclose that fact. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

IAS 7 'Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Bank first applies those amendments, it is not required to provide comparative information for preceding periods. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

II. The new standards, amendments and interpretations (continued)

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:
a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and

b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank..

IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property'. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

II. The new standards, amendments and interpretations (continued)

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The interpretation is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

(Currency - In thousands of Turkish Lira)

III. Significant accounting policies

3.1 Statement of compliance

The Bank maintains its book of account and prepares its statutory financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation.

The financial statements have been prepared from statutory financial statements of the Bank and presented in accordance with International Financial Reporting Standards ("IFRS") in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The financial statements were authorised for issue by the Bank's management on 13 February 2017. The Bank's General Assembly and the other reporting bodies have the power to amend the financial statements after their issue.

3.2 Basis of measurement

The financial statements have been prepared on historical cost basis except for the following which are measured at fair value:
• derivative financial instruments
• financial instruments at fair value through profit or loss,
• available-for-sale financial instruments.
• Investment property

3.3 Accounting in hyperinflationary economies

The financial statements of the Bank for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

III. Significant accounting policies (continued)

3.4 Foreign currency transactions

Transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign currency translation rates used by the Bank are as follows:

	USD / TL (full)	EUR / TL (full)
31 December 2016	3.5192	3.7099
31 December 2015	2.9181	3.1838

3.5 Interest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of financial instrument, but not future credit losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense presented in the statement of comprehensive income statement include:
• the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis
• the interest income on held for trading investments and available for sale investments.

Interest income is suspended when loans are impaired and is excluded from interest income until received.

III. Significant accounting policies (continued)

3.6 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

3.7 Net trading income

Net trading income comprises gains less loss related to derivative financial and liabilities, and includes all realised and unrealised fair value changes and interest Any realised or unrealised fair value changes and interest of derivative financial assets and liabilities are recorded as trading income.

3.8 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

3.9 Taxation and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

III. Significant accounting policies (continued)

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

III. Significant accounting policies (continued)

3.9 Taxation and deferred income taxes (continued)

Investment Incentives

The phase " ... only attributable to 2006, 2007 and 2008", which was included in the paragraph set out in Provisional Article 69 of Income Tax Law No: 193 is deleted upon the Constitutional Court's resolution no: 2009/144 and the related decision was published in the Official Gazette on 8 January 2010. Investment incentive application was revised based on Article 5 of Law No: 6009, which had been published in the Official Gazette No: 27659 on 1 August 2010. Under the revised law, the investment incentive amount which would be used as a discount in determining the tax basis should not exceed 25% of the related period's profit, only to the extent that it is applicable to profit for the related period, whereas corporate tax would be calculated based on the applicable tax rate over the remaining profit. The requirement stating that deductible investment incentive amount cannot exceed the 25% of annual earnings has been annulled upon the Constitutional Court's decision no: 2010/93, K: 2012/9 issued on 9 February 2012. The full annulment decision has not been published in the Official Gazette as of the report date but the decision for the stay of execution is published in the Official Gazette on 18 February 2012. As of 31 December 2016, there is no investment incentive amount that is planned to be deducted by the Bank from its corporate income in the future and therefore there is no deferred tax asset recognized in the Bank's financial statements related to the investment incentive (31 December 2015: None).

3.10 Financial assets and liabilities

3.10.1 Financial Assets

All financial assets are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

III. Significant accounting policies (continued)

3.10 Financial assets and liabilities (continued)

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated under this category upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Available for sale financial assets

Quoted equity investments and quoted certain debt securities held by the Bank that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The unquoted equity investments that are not traded in an active market but are also classified as available for-sale financial assets are stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognized in profit and loss when the Bank has the right to receive any payment.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the prevailing exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

III. Significant accounting policies (continued)

3.10 Financial assets and liabilities (continued)

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as amounts due from banks, and the underlying asset is not recognised in the Bank's financial statements.

Due from banks and loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of financial asset or financial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred, if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event or events has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced through the use of an allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Increase in fair value of available for sale financial assets subsequent to impairment is recognized in directly in equity.

III. Significant accounting policies (continued)

3.10 Financial assets and liabilities (continued)

Repossessed assets

As part of its treatment of defaulted loans and guarantees, the Bank in a number of cases takes over assets as security for such exposures. Upon repossession the assets are valued at their presumed realisable value. Any deviation from the carrying value of a defaulted or written down exposure upon takeover is classified as a loan write-down. Repossessed assets are carried according to type. Upon final disposal, the deviation from carrying value is entered in profit or loss based on the asset's type in the accounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

3.10.2 Financial Liabilities

Financial liabilities and equity instruments issued by the Bank are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

III. Significant accounting policies (continued)

3.10.2 Financial Liabilities (continued)

Other financial liabilities

Other financial liabilities, including funds borrowed, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

Deposits, funds borrowed and debt securities issued

The Bank is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Bank's sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.11 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

III. Significant accounting policies (continued)

3.11 Property and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3.12 Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

3.13 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

III. Significant accounting policies (continued)

3.14 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

The Bank's investment properties are valued by external, independent valuation companies on a periodic basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. In the absence of available current prices in an active market, the valuations are based on estimated cash flows expected to be received.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

3.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee

Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

III. Significant accounting policies (continued)

3.15 Leases (continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3.16 Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.17 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

III. Significant accounting policies (continued)

3.17 Employee benefits (continued)

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.18 Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Bank.

3.19 Use of estimates and judgments

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3.20 Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

III. Significant accounting policies (continued)

3.20 Key sources of estimation uncertainty (continued)

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

3.21 Functional and presentation currency

These financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial information presented in TL has been rounded to the nearest thousand.

(Currency - In thousands of Turkish Lira)

IV. Segment reporting

An operating segment is a component of an entity: that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Bank operates in investment, retail and corporate banking. Accordingly, the Bank invests with the funds provided by using the capital market instruments and provides consultancy services so as to provide efficient management and sound financial structure to business enterprises.

The Bank provides investment and operating loans to its commercial and retail customers and also provides service packages consisting of foreign trade operations, investment products, cash management, financial leasing, factoring, and other banking products. Major financial statement items according to business lines:

31 December 2016	Corporate banking	Other(*)	Total operations of the Bank
Operating income	67,847	9,398	77,245
Expenses	(27,395)	-	(27,395)
Profit before income tax	40,452	9,398	49,850
Income tax income/expense	-	-	(8,767)
Profit from continued operations	31,685	9,398	41,083
Profit for the period	31,685	9,398	41,083
Segment assets	1,169,447	104	1,169,551
Non-distributed Asset	-	-	-
Total assets	1,169,447	104	1,169,551
Segment liabilities	1,001,333	-	1,001,333
Shareholders' equity	-	168,218	168,218
Total liabilities	1,001,333	168,218	1,169,551

(*) includes investment, retail and other banking business lines.

IV. Segment reporting (continued)

2015	Corporate banking	Other(*)	Total operations of the Bank
Operating income	44,447	2,164	46,611
Expenses	(25,205)	-	(25,205)
Profit before income tax	19,242	2,164	21,406
Income tax income/expense	-	-	(5,025)
Profit from continued operations	14,217	2,164	16,381
Profit for the period	14,217	2,164	16,381
31 December 2015			
Segment assets	715,931	209	716,140
Non-distributed Asset	-	-	-
Total assets	715,931	209	716,140
Segment liabilities	587,204	-	587,204
Shareholders' equity	-	128,936	128,936
Total liabilities	587,204	128,936	716,140

Geographical concentration

2015	Assets	Liabilities	Non-cash loans	Capital expenditures	Net profit /(loss)
31 December 2016					
Domestic	1,027,598	1,072,859	542,776	2,478	41,083
European Union countries	1,624	35,336	-	-	-
OECD countries	11,473	-	-	-	-
USA, Canada	5,725	35,211	-	-	-
Other countries	123,131	26,145	-	-	-
Total	1,169,551	1,169,551	542,776	2,478	41,083
31 December 2015					
Domestic	713,832	716,140	269,511	1,601	16,381
European Union countries	1,361	-	-	-	-
OECD countries	17	-	-	-	-
USA, Canada	930	-	-	-	-
Other countries	-	-	-	-	-
Total	716,140	716,140	269,51	1,601	16,381

(Currency - In thousands of Turkish Lira)

V. Cash and cash equivalents

	31 December 2016	31 December 2015
Cash and balances with central banks	314	179
- Cash on hand	95	159
- Balances with central banks	219	20
Due from banks and financial institutions	93,541	106,604
Placements at money markets	42,459	62,353
Cash and cash equivalents in the balance sheet	136,314	169,136

As at 31 December 2016 and 31 December 2015, the details of the balances with central banks and due from banks and financial institutions are as follows:

	31 December 2016			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	1	218	-	-
Due from banks and financial institutions	40,175	53,366	9.1%	0.8%
Placement at money markets	42,459	-	10.1%	-
Total	82,635	53,584		

	31 December 2016			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	3	17	-	-
Due from banks and financial institutions	18,121	88,483	11.43%	-
Placement at money markets	62,353	-	14.41%	-
Total	80,477	88,500		

(Currency - In thousands of Turkish Lira)

VI. Reserve deposits at Central Bank

	31 December 2016	31 December 2015
Turkish Lira	57,161	43,663
Foreign currency	26,905	3,029
	84,066	**46,692**

As of December 31, 2016, the compulsory rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 4% to 10.5% depending on the maturity of deposits (December 31, 2015 – 5% to 11.5%) and the compulsory rates for the foreign currency liabilities are within an interval from 4.5% to 24.5% depending on the maturity of deposits and other liabilities (December 31, 2015 – 5% to 25%).

In accordance with the "Communiqué Regarding the Reserve Requirements", the reserve requirements can be maintained as TL, USD, EUR and standard gold.

According to CBRT press release No. 2014-72 dated October 21, 2014, starting from November 2014, interest is paid on reserve requirements held in TL. Additionally, according to T. C. Central Bank press release No. 2015-35 dated May 2, 2015, starting from May 5, 2015 interest is paid on USD reserve deposits, reserve options and unrestricted deposits.

VII. Financial assets at fair value through profit or loss

	31 December 2016	31 December 2015
Derivative financial assets-held for trading.	2,593	23,049
Total FVTPL	2,593	23,049

Income and losses comprising the gains and losses related to and liabilities and realised and unrealised fair value changes are reflected in the statement of profit or loss as net trading income / (loss).

VIII . Available for sale investments

	31 December 2015		31 December 2015	
	Amount	Effective interest rate	Amount	Effective interest rate
Available-for-sale investments at fair value				
Debt instruments (a)	18,991	12.85%	4,465	11.83%
Equity instruments – listed (b)	26,363		29,959	
Equity instruments – unlisted	160		160	
Total available-for-sale investments at fair value	45,514		34,584	

a) Available for sale debt instruments include government bonds denominated in TL amounting to TL 805 (31 December 2015: TL 1,130), bank bonds amounting to TL 2,044 (31 December 2015: None) and Eurobonds amounting to TL 3,699 (31 December 2015: None) and the remaining portion amounting to TL 12,443 Thousand (31 December 2015: TL 3,335 Thousand) consists of private sector bonds.
(b) The Bank holds 15.97% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 31 December 2016 and the investment is accounted under available for sale investments, as the Bank has no significant influence on the Company. As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 24,146 Thousand is accounted under equity (31 December 2015: TL 27,743 Thousand).

IX . Loans and advances to customers

	31 December 2016		
	Amount		
	TL	Foreign currency	Total
Finance lease receivables	-	-	-
Factoring receivables	46,169	-	46,169
Short-term loans	227,222	8,600	235,822
Medium and long-term loans	184,358	310,451	494,809
Total performing loans	457,749	319,051	776,800
Less: Portfolio provision	5,829	-	5,829
Non-performing loans	28	-	28
Less: Reserve for possible loan losses	(28)	-	(28)
Total non-performing loans (net)	-	-	-
Transferred assets (*)	6,430	-	6,430
Total loans, net	458,350	319,051	777,401

(*) Transferred assets comprise non-performing loans amounting to TL 9,035, in gross transferred to an asset management company under revenue sharing arrangement in 2015, but have not been derecognized by the Bank as the Bank has retained substantially all the risks and rewards of ownership of the transferred asset. The Bank reflects such loans at amortized cost net of impairment in the statement of financial position

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

IX. Loans and advances to customers (continued)

	31 December 2016		
	Amount		
	TL	Foreign currency	Total
Finance lease receivables	8,792	-	8,792
Factoring receivables	-	-	-
Short-term loans	208,477	28,764	237,241
Medium and long-term loans	113,544	69,137	182,681
Total performing loans	330,813	97,901	428,714
Less: Portfolio provision	(3,161)	-	(3,161)
Non-performing loans	540	-	540
Less: Reserve for possible loan losses	(150)	-	(150)
Total non-performing loans (net)	390	-	390
Transferred assets (*)	5,768	-	5,768
Total loans, net	333,810	97,901	431,711

Movements in non-performing loans:

	31 December 2016	31 December 2015
Reserve at beginning of period	3,311	1,912
Provision for possible loan losses	2,668	4,282
Recoveries	(126)	-
Provision, net of recoveries	2,542	4,282
Disposal of non-performing loans	4	(2,883)
Reserve at end of period	5,857	3,311

Loans and advances to customers include the following finance lease receivables.

	31 December 2016	31 December 2015
Gross investment in finance leases, receivable:		
Less than one year	-	7,484
Between one and five years	-	2,381
	-	9,865
Unearned future income on finance leases	-	(1,073)
Net investment in finance leases	-	8,792
The net investment in finance leases comprises:		
Less than one year	-	6,492
Between one and four years	-	2,300
	-	8,792

(Currency - In thousands of Turkish Lira)

X . Property and equipment

	Office equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2016	1,666	319	1,309	3,294
Acquisitions	1330	11	-	1,340
Disposals	-	-	-	-
Balance at 31 December 2016	2,996	330	1,309	4,635
Depreciation				
Balance at 1 January 2016	1,297	76	320	1,693
Depreciation charge for the period	183	51	230	464
Disposals	-	-	-	-
Balance at 31 December 2016	1,480	127	550	2,157
Carrying value as of 31 December 2016	1,516	203	759	2,478

	Office equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2015	1,668	652	591	2,911
Acquisitions	253	250	1,028	1,531
Disposals	(255)	(583)	(310)	(1,148)
Balance at 31 December 2015	1,666	319	1,309	3,294
Depreciation				
Balance at 1 January 2015	(1,366)	(615)	(442)	(2,423)
Depreciation charge for the period	(163)	(34)	(185)	(382)
Disposals	232	573	307	1,112
Balance at 31 December 2015	(1,297)	(76)	(320)	(1,693)
Carrying value as of 31 December 2015	369	243	989	1,601

As of 31 December 2016 tangible assets were insured to the extent to TL 2,478 Thousand in total.
The estimated useful lives are as follows:

Motor vehicles	5 - 7 years
Office equipment, furniture and fixtures	5 - 15 years
Leased assets	shorter of 5 - 10 years and the lease term

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND
FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XI. Intangible assets

	Software	Total
Cost		
Balance at 1 January 2016	4,311	4,311
Additions	521	521
Balance at 31 December 2016	4,832	4,832
Amortization and impairment		
Balance at 1 January 2016	3,157	3,157
Amortization charge for the period	288	288
Balance at 31 December 2016	3,445	3,445
Carrying value as of 31 December 2016	1,387	1,387

	Software	Total
Cost		
Balance at 1 January 2015	4,038	4,038
Additions	273	273
Balance at 31 December 2015	4,311	4,311
Amortization and impairment		
Balance at 1 January 2015	(3,017)	(3,017)
Amortization charge for the period	(140)	(140)
Balance at 31 December 2015	(3,157)	(3,157)
Carrying value as of 31 December 2015	1,154	1,154

XII. Investment property

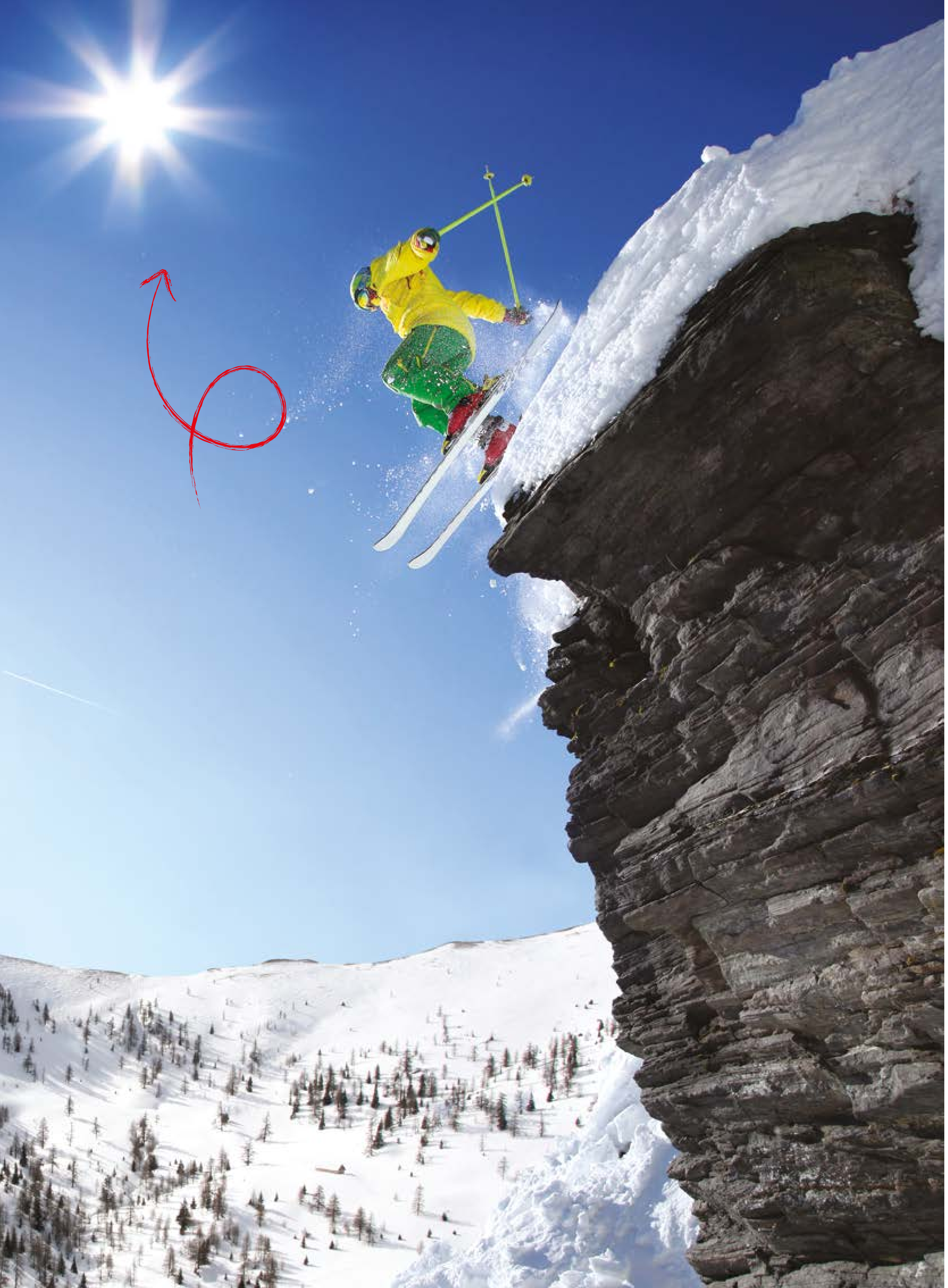
As of 31 December 2016, the Bank has investment property amounting to TL 19,920 (31 December 2015: 3,427).

The Company accounts its investment property under fair value model.

XIII. Other Assets

The Bank concluded a "Pre-emption agreement" having 2 years term with Alkela over the real estate property with a value of 24,4 million USD on March 28, 2016. The Bank recognises the aforementioned amount in other assets.

(Currency - In thousands of Turkish Lira)



XIV . Funds borrowed

	31 December 2016			31 December 2015		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Funds borrowed	11,531	148,602	160,133	40,531	120,292	160,823
Obligations under repurchase agreements	15,828		15,828	727	-	727
	27,359	148,602	175,961	41,258	120,292	161,550

The effective interest rate for funds borrowed denominated in USD is 0.56% (31 December 2015 –1.74%), in EUR is 1.02% (31 December 2015 – 3.45%) and in TL is 9.72% (31 December 2015 – 10.36 %).

The Bank has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 31 December 2016 (31 December 2015 – None).

XV . Debt securities issued

The Bank has issued bonds on July 15, 2016 with a nominal value of TL 50,000, interest rate of 10.80% and 178 days maturity; on August 16, 2016 with a nominal value of TL 65,000 , interest rate 11.50% and 178 days maturity; on August 26, 2016 with a nominal value of TL 60,000 , interest rate 11.25% and 178 days maturity; on October 27, 2016 with a nominal value of TL 50,000 , interest rate 11.19% and 91 days maturity; on October 4, 2016 with a nominal value of TL 70,000 , interest rate 11% and 171 days maturity; on October 22, 2016 with a nominal value of TL 100,000 , interest rate 10.90% and 176 days maturity; on November 29, 2016 with a nominal value of TL 37,500 , interest rate 13.55% and 911 days maturity; on November 29, 2016 with a nominal value of TL 3,00 , interest rate 13.55% and 911 days maturity; on November 29, 2016 with a nominal value of TL 42,750 , interest rate 13.80% and 1095 days maturity; on December 23, 2016 with a nominal value of TL 46,440 , interest rate 11.30% and 160 days maturity; on November 29, 2016 with a nominal value of TL 37,500 , interest rate 13.55% and 911 days maturity; on October 20, 2016 with a nominal value of TL 30,500 , interest rate 3.10% and 545 days maturity and on September 2, 2016 with a nominal value of TL 3,000 , interest rate 11.75% and 483 days maturity.

	31 December 2016			31 December 2015		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds	525,853	-	525,853	382,400	-	382,400
	525,853	-	525,853	382,400	-	382,400

XVI. Subordinated debts

	31 December 2016			31 December 2015		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds (*)	-	53,364	53,364	-	-	-
	-	53,364	53,364	-	-	-

(*) The Bank has made eurobond issue at a nominal value of 10,000,000 USD with a coupon payment once in 6 months, fixed rate, and 10 years of maturity through sales to qualified investors method on March 31, 2016 and received a loan from World Business Capital at an amount of 5,000,000 USD with an interest rate of 6,65%, 10 years maturity, floating rate and quarterly interest payment. (31 December 2015: None).

XVII. Other liabilities

	31 December 2016	31 December 2015
Cash collaterals (*)	210,109	21,405
Taxes and funds payable	2,381	1,381
Others	11,610	12,252
	224,100	35,038

(*) The balance includes cash collaterals received for the derivative transactions made with the corporate customers.

XVIII. Provisions

	31 December 2016	31 December 2015
Provision for non-cash loans	906	1,029
Employee termination benefits	693	685
Unused vacation accrual	660	460
Provision for lawsuits	407	450
Bonus accrual	-	1,000
Other	46	16
	2,712	3,640

The movement in vacation pay liability is as follows:

	2016	2015
At 1 January	460	404
Provision provided /(reversal)	200	56
At 31 December	660	460

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XVIII. Provisions (continued)

The movement in provision for bonus accrual is as follows:

	2016	2015
At 1 January	1,000	247
Provision provided	1,000	1,000
Bonus paid	(2,000)	(247)
At 31 December	-	1,000

The movement in provision for employee termination benefits is as follows:

	2016	2015
At 1 January	685	565
Service cost	8	160
Interest cost	-	15
Benefits paid	-	(55)
Provision reversal	-	-
Actuarial gain /loss	-	-
At 31 December	693	685

Employee termination benefits

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 4,297.21 for each period of service at 31 December 2015 (2015: TL 3,541.37).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 Employee Benefits stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying financial statements as at 31 December 2016, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated by using 7.00% (31 December 2015: 6.00%) annual inflation rate and 11.00% (31 December 2015: 8.40%) discount rate.

(Currency - In thousands of Turkish Lira)

IX. Taxation

The Bank is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

Income tax recognised in the income statement

The components of income tax expense as stated below:

	31 December 2016	31 December 2015
Current tax		
Current income tax	(14,582)	(1,966)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	5,815	(3,059)
Income tax expense reported in the income statement	**(8,767)**	**(5,025)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Profit before income tax	49,850	21,406
Income tax using the domestic corporate tax rate 20%	(9,970)	(4,281)
Disallowable expenses	976	(744)
Other	227	-
Total income tax expense in the profit or loss	**(8,767)**	**(5,025)**

IX. Taxation (continued)

Movement of net deferred tax assets can be presented as follows:

	31 December 2016	31 December 2015
Deferred tax assets / (liability), net at 1 January	(4,119)	(657)
Deferred tax recognised in the profit or loss	5,815	(3,059)
Deferred income tax recognised in other comprehensive income	1,386	(403)
Deferred tax assets/(liabilities), net at end of December	**3,082**	**(4,119)**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Liability for employee benefits	271	-	271	229	-	229
Valuation of available for sale financial assets	68	-	68	-	(1,388)	(1,388)
Economic life property and equipment	-	(136)	(136)	-	(60)	(60)
Derivatives	2,022	-	2,022	-	(4,518)	(4,518)
Prepaid commissions	-	-	-	1,248	-	1,248
Other	1,261	(404)	857	568	(198)	370
	3,622	**(540)**	**3,082**	**2,045**	**(6,164)**	**(4,119)**

XX. Commitments and contingencies

In the normal course of business, the Bank enters into a number of contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods.

Standby letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Bank. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

XX. Commitments and contingencies (continued)

As at 31 December 2016; commitments and contingencies comprised the following:

	31 December 2016	31 December 2015
Letters of guarantee	469,152	260,755
Bank acceptance	65,105	5,731
Letters of credit	8,519	3,025
Other commitments	249	235
Total	543,025	269,746

XXI. Derivatives

As at 31 December 2016; derivative financial instruments are comprised the following. This table shows the fair values of derivative financial liabilities.

	31 December 2016		31 December 2015	
	Fair Value	Notional Amount in Turkish Lira equivalent	Fair Value	Notional Amount in Turkish Lira equivalent
Derivative financial liabilities – FVTPL	12,703	1,031,617	457	581,510
	12,703	1,031,617	457	581,510

XXII. Share capital and reserves

Share capital

As at 31 December 2016 and 31 December 2015, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2016		31 December 2015	
	Amount	%	Amount	%
Nurol Holding A.Ş.	35,171	78	35,171	78
Nurol İnşaat ve Tic. A.Ş.	7,182	16	7,182	16
Nurol Otelcilik ve Turizm İşletmeciliği A.Ş.	397	1	397	1
Others	2,250	5	2,250	5
Total	45,000		45,000	

As at 31 December 2016 and 31 December 2015, the authorised share capital comprised of 45,000 ordinary shares having a par value of TL full 1,000. All issued shares are paid.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND
FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XXII. Share capital and reserves (continued)

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

As at 31 December 2016, the Bank's legal reserves amounted to TL 2,913 Thousand (31 December 2015 – TL 1,972 Thousand).

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale available for sale investments until the investment is derecognised or impaired.

Movement in available-for-sale reserve is as follows:

At 31 December 2015	26,334
At 1 January 2016	26,334
Change in fair value of available-for-sale financial assets (net of tax)	(1,801)
At 31 December 2016	24,533

XXIII. Net interest income

	31 December 2016	31 December 2015
Interest income	134,659	82,207
Loans and advances to customers	2,097	2,229
Deposits with banks and other financial institutions	2,089	2,111
Held for trading and available for sale investments	26	1,353
Financial leases	441	761
Other	139,312	88,661
Interest expense	5,815	4,929
Funds borrowed	48,441	35,387
Debt securities issued	1,997	1,725
Interbank funds borrowed	56,253	42,041
Net interest income	83,059	46,620

XXIV. Net fee and commission income

	31 December 2016	31 December 2015
Fee and commission income		
Non-cash loans	5,615	5,062
Other (*)	14,117	7,194
Total fee and commission income	19,732	12,256

(*) Right to purchase, which is calculated with respect to real estate right to purchase agreement concluded with Alkela, is recognized as revenue through rediscounting the premium amount.

Fee and commission expense		544
Non-cash loans	708	2,449
Other	4,853	2,993
Total fee and commission expense	5,561	
Net fee and commission income	14,171	9,263

XXV. Net trading income/loss

	31 December 2016	31 December 2015
Gain / (loss) on foreign exchange rate fluctuations	(13,513)	(17,996)
Gain / (loss) from securities	1,145	1,258
Gain / (loss) on derivatives	(15,767)	9,701
Total	(28,135)	(7,037)

XXVI. Other operating income

	31 December 2016	31 December 2015
Reversal of provision	273	(1,816)
Fair value gain on investment properties(*)	6,964	-
Other	913	(419)
	8,150	(2,235)

(*) The Bank has gained real estate revaluation income over the real estate which is passed into the ownership of the Bank because of the loan debt.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XXVII. Other provision expenses

	1 January-31 December 2016	1 January-31 December 2015
Bonus expenses	-	1,000
Unused vacation expenses	25	92
Other expenses	200	8
Total	225	1,100

XXVIII. Personnel expenses

	31 December 2016	31 December 2015
Wages and salaries	9,389	8,449
Compulsory social security obligations	815	610
Other benefits	2,027	666
Total	12,231	9,725

XXIX. Administrative expenses

	31 December 2016	31 December 2015
Nurol Holding re-charges	4,160	3,033
Taxes and duties expenses	307	239
Rent expenses	1,228	1,041
Audit and advisory expenses	1,148	569
Computer expenses	853	715
Telecommunication expenses	661	719
Transportation expenses	133	131
Maintenance expenses	202	145
Hosting expenses	207	191
Advertising expenses	6	6
Office supplies	31	24
Expenses for the disposal of assets	-	180
Notary expenses	629	623
Other various administrative expenses	2,073	1,960
Total	11,638	9,576

XXX. Financial risk management objectives and policies

a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Bank's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk, The Bank's risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Bank. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions, In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

b) Credit risk

Credit risk represents the risk arising from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally. Credit Risk Management Committee is responsible for managing credit risk at the Bank.

Total amount of credits granted to a group is subject to certain credit risk limits. According to the decision taken by the Board of Directors; the maximum amount of the loan to be granted to a group (cash and non-cash) is limited with the calculation of certain percentages of the shareholders' equity based on the rating of the group. Furthermore, concentration risk is monitored on monthly basis in terms of industry, rating by risk group and customer.

The credibility of the debtors of the Bank is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Bank's procedures. The Bank analyses the credibility of the loans within the framework of its loan policies and obtains collaterals for loans and other receivables.

The restructured and rescheduled loans are evaluated in the Bank's current rating system besides the follow up method determined in the related regulation.

Credit risk by risk groups

	Individual	Corporate	Leasing	Total
31 December 2016				
Performing loans	4,265	725,372	-	729,637
Factoring loans	-	46,169	-	46,169
Loans under close monitoring	-	994	-	994
Non-performing loans	-	28	-	28
Gross	4,265	772,563	-	776,828
Transferred asset	-	6,430	-	6,430
Reserve for possible loan losses	-	(28)	-	(28)
Collective impairment	-	(5,829)	-	(5,829)
Total	4,265	773,136	-	777,401
31 December 2015				
Performing loans	201	419,721	8,792	428,714
Loans under close monitoring	-	-	-	-
Non-performing loans	24	516	-	540
Gross	225	420,237	8,792	429,254
Transferred asset	-	5,768	-	5,768
Reserve for possible loan losses	(24)	(126)	-	(150)
Collective impairment	-	(3,161)	-	(3,161)
Total	201	422,718	8,792	431,711

XXX. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk

	Notes	Due from banks 31 December 2016	Due from banks 31 December 2015	Loans and advances to customers 31 December 2016	Loans and advances to customers 31 December 2015
Carrying amount		136,000	168,957	777,401	431,711
Individually impaired					
- Non-performing financial assets		-	-	28	540
Gross amount		-	-	28	540
Reserve for possible loan losses	8	-	-	(28)	(150)
Collective impairment		-	-	(5,829)	(3,161)
Carrying amount		-	-	(5,829)	(2,771)
Past due but not impaired		-	-	-	-
Carrying amount		-	-	-	-
Neither past due nor impaired		136,000	168,957	729,466	421,855
Carrying amount		136,000	168,957	729,466	421,855
Restructured and rescheduled loans and other receivables		-	-	53,764	12,627
Carrying amount		-	-	53,764	12,627
Carrying amount (amortised cost)		136,000	168,957	777,401	431,711

Impaired loans and advances

Individually impaired loans are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan.

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Reserve for possible loan losses

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The Bank writes off a loan balance and any related allowances for impairment losses, when Bank position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not sufficient to pay back the entire exposure,

Collateral policy

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

XXX. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Collateral policy (continued)

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

Cash loans	31 December 2016	31 December 2015
Secured cash loans	744,178	360,892
Secured by cash collateral	50,999	60,208
3rd party guarantees	313,617	131,504
Secured by mortgages	100,650	94,787
Secured by customer cheques & acts	8,653	15,019
Leasing	-	8,450
Vehicle pledge	73,621	19,346
Marketable securities	115,500	-
Assignment of receivables	81,138	31,578
Non-secured cash loans	17,905	60,358
Accrued interest income on loans	15,318	7,464
Total performing cash loans	777,401	428,714

Non-cash loans[1]	31 December 2016	31 December 2015
Secured non-cash loans	248,041	160,641
Personal guarantees	248,027	158,881
Secured by cash collateral	14	14
Assigment of receivables	-	246
Secured by customer cheques & acts	-	1,500
Non-secured non cash loans	221,111	100,114
Total non-cash loans	469,152	260,755

[1]Other commitments, letters of credit and bank acceptances are not included.

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Segment concentration

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from due from banks and loans and advances to customers at the reporting date is shown below:

	Due from banks		Loans and advances to customers	
	2016	2015	2016	2015
Banks	136,000	168,957		-
Manufacturing		-	19,101	38,536
Production		-	19,101	38,536
Construction		-	99,405	28,050
Services		-	384,674	223,912
Wholesale and retail trade		-	111,627	115,900
Hotel food and beverage services		-	-	-
Financial institutions		-	129,419	65,179
Communication services		-	11,415	23,417
Health and social services		-	-	-
Renting Service			132,213	19,416
Other		-	274,221	140,823
Non-performing loans net		-	-	390
Total	136,000	168,957	771,401	431,711

		Due from banks		Loans and advances to customers	
	Notes	2016	2015	2016	2015
Turkey		134,001	166,649		307,272
Europe		1,624	1,361		-
Other		375	947	139,974	124,439
	5,8	136,000	168,957	777,401	431,711

XXX. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Fair value through profit or loss (FVTPL)

At 31 December 2016, the Bank has financial assets at FVTPL amounting to TL 2,593 Thousand (31 December 2015– TL 23,049 Thousand). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	31 December 2016	31 December 2015
Derivatives	7	2,593	23,049
Fair value and carrying amount		2,593	23,049

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

Management of liquidity risk

In order to manage this risk, the Bank measures and manages its cash flow commitments on a daily basis and maintains liquid assets, which it judges sufficient to meet its commitments.

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communique on the measurement of liquidity adequacy of the banks. The Bank's liquidity ratios in 2016 and 2015 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency (%)	Total (%)	Foreign currency (%)	Total (%)
2016 average	176	238	106	137
2015 average	302	262	108	137

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

As at 31 December 2016 and 31 December 2015, the following table provides the contractual maturities of the Bank's financial liabilities.

	31 December 2016						
	Carrying Amount	Contractual cash flows	6 month or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 Years
Funds borrowed	175,961	214,012	80,793	63,113	17,376	-	52,730
Debt securities Issued	525,853	563,482	477,232	-	3,000	83,250	-
	701,814	**777,494**	**558,025**	**63,113**	**20,376**	**83,250**	**52,730**

	31 December 2016						
	Carrying Amount	Contractual cash flows	6 month or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 Years
Funds borrowed	161,550	200,694	200,694	-	-	-	-
Debt securities Issued	382,400	389,140	204,700	153,511	30,929	-	-
	543,950	**550,340**	**365,900**	**153,511**	**30,929**	-	-

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Exposure to liquidity risk

Maturity analysis of monetary assets and liabilities according to their remaining maturities is presented below:

31 December 2016	Demand	Less than 1month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	2,736	133,578	-	-	-	-	136,314	136,314
Reserve deposits	57,161	26,905	-	-	-	-	84,066	84,066
FVTPL investments	-	1,961	405	-	227	-	2,593	2,593
Available for sale investments			2,045	7,973	5,276	3,699	45,514	45,514
Loans and advances to customers	-	86,325	2,031	248,268	397,156	43,621	777,401	777,401
Other assets		98,713					123,663	123,663
Total assets	59,897	347,482	4,481	256,241	402,659	47,320	1,169,551	1,169,551
Funds borrowed (*)	-	37,721	22,821	81,112	16,702	35,211	193,567	193,567
Debt securities issued(**)	-	99,522	191,648	170,858	63,825	35,758	561,611	561,611
Derivative financial liabilities	-	3,385	4,554	4,764	-	-	12,703	12,703
Other liabilities	24,164	102,812	111,687	-	17	-	401,670	401,670
Total liabilities	24,164	243,440	330,710	256,734	80,544	70,969	1,169,551	1,169,551
Liquidity gap	35,733	104,042	(326,229)	(493)	322,115	(23,649)	-	-
Off Balance Sheet Position	-	(1,363)	(4,715)	593	20,358	-	14,873	14,873
Receivables from derivatives	-	150,308	201,452	88,235	83,250	-	523,245	523,245
Liabilities from derivatives	-	151,671	206,167	87,642	62,892	-	508,372	508,372
Non cash loans	-	-	-	29,936	46,302	466,537	542,776	542,776

(*) Includes Subordinated loans amounting to TL 17,606 in over 5 year line.
(**) Includes Subordinated bonds amounting to TL 35,758 in over 5 year line

XXX. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

31 December 2015	Demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	2,588	166,548	-	-	-	-	-	169,136
Reserve deposits	-	46,692	-	-	-	-	-	46,692
FVTPL investments	-	14,353	1,401	7,295	-	-	-	23,049
Available for sale investments	-	-	-	2,463	2,000	-	30,121	34,584
Loans and advances to customers	-	68,998	127,722	104,488	124,345	5,768	390	431,711
Other assets	3,427	1,915	1,491	-	-	-	4,135	10,968
Total assets	3,427	301,094	130,614	114,246	124,345	5,768	34,646	716,140
Funds borrowed (*)	-	49,061	91,392	21,097	-	-	-	161,550
Debt securities issued(**)	-	69,559	73,609	208,488	30,744	-	-	382,400
Derivative financial liabilities	-	457	-	-	-	-	-	457
Other liabilities	13,466	29,275	-	56	-	-	128,936	171,733
Total liabilities	13,466	148,352	165,001	229,641	30,744	-	128,936	716,140
Liquidity gap	(10,039)	152,742	(34,387)	(115,395)	95,601	5,768	(94,290)	-
Off Balance Sheet Position	-	7,993	7,757	5,634	(12)	-	-	21,372
Receivables from derivatives	-	125,187	99,034	75,860	1,360	-	-	301,441
Liabilities from derivatives	-	117,194	91,277	70,226	1,372	-	-	280,069
Non cash loans	-	-	-	9,195	107,048	153,268	-	269,511

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

d) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared are reported to BRSA.

31 December 2016 and 31 December 2015 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012, are as follows:

	2016			2015		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	1,210	3,965	340	651	1,425	257
Equity price risk	-	-	-	-	-	-
Currency risk	492	1,056	87	1,389	2,817	710
Counter party risk	268	1,647	-	1,915	3,244	888
Total value-at-risk	1,970	6,668	427	3,955	7,486	1,855

XXX. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Bank is subject to due to the exchange rate movements in the market.

Position limit of the Bank related with currency risk is determined according to Foreign Currency Net Position Standard ratio determined by BRSA.

The concentrations of assets, liabilities and off balance sheet items are as follows:

	USD	Euro	Others	Total
2016				
Assets				
Cash and cash equivalents	5,199	21,774	-	26,973
Reserve deposits at Central Bank	36,614	16,883	87	53,584
Loans and advances to customers	50,291	268,760	-	319,051
Available for sale investments	3,699	-	-	3,699
Other assets	89,944	-	-	89,944
Total assets	185,747	307,417	87	493,251
Liabilities				
Funds borrowed	44,538	104,064	-	148,602
Subordinated debts	53,364	-	-	53,364
Other liabilities	3,274	206,760	-	210,034
Total liabilities	101,176	310,824	-	412,000
Gross exposure	84,571	(3,407)	87	81,251
Off-balance sheet position				
Net notional amount of derivatives	(83,863)	4,223	-	(79,640)
Net exposure	708	816	87	1,611

XXX. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk (continued)

	USD	Euro	Others	Total
2015				
Assets				
Cash and cash equivalents	2,692	85,754	54	88,500
Reserve deposits at Central Bank	-	3,112	-	3,112
Loans and advances to customers	33,566	64,335	-	97,901
Available for sale investments	-	-	-	-
Other assets	58	-	-	58
Total assets	36,316	153,201	54	189,571
Liabilities				
Funds borrowed	11,496	108,796	-	120,292
Subordinated debts	12,977	777	-	13,754
Other liabilities				
Total liabilities	24,473	109,573	-	134,046
Gross exposure	11,843	43,628	54	55,525
Off-balance sheet position				
Net notional amount of derivatives	(11,367)	(43,251)	-	(54,618)
Net exposure	476	377	54	907

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
NOTES THE FINANCIAL STATEMENTS AS OF AND
FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk (continued)

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2016 and 31 December 2015 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

2016	Equity	Profit or loss
EUR	82	82
USD	71	71
Other currencies	9	9
	162	162

2015	Equity	Profit or loss
EUR	38	38
USD	48	48
Other currencies	5	5
	91	91

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2016 and 31 December 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk that would arise from the changes in interest rates depending on the Bank's position is managed by the Asset and Liability Committee of the Bank. Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

The Management of the Bank follows the interest rates in the market on a daily basis and revises interest rates of the Bank when necessary.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk (continued)

	Less than 1month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2016							
Assets							
Cash and cash equivalents	133,578	-	-	-	-	2,736	136,314
Reserve deposits at Central Bank	26,905	-	-	-	-	57,161	84,066
FVTPL investments	1,961	405	-	227	-	-	2,593
Available for sale investments	-	8,192	1,825	5,276	3,699	26,522	45,514
Loans and advances to customers	86,325	2,031	248,268	397,156	43,621	-	777,401
Other assets						123,663	123,663
Total assets	248,769	10,628	250,093	402,659	47,320	210,082	1,169,551
Liabilities							
Funds borrowed	37,722	22,820	81,112	16,702	35,211	-	193,567
Debt securities issued[1]	129,892	227,406	143,180	61,133	-	-	561,611
Other liabilities[2]	99,116	117,138	4,764	506	-	192,849	414,373
Total liabilities	266,730	367,364	229,056	78,341	35,211	192,849	1,169,551
On balance sheet interest sensitivity gap	(17,961)	(356,736)	21,037	324,318	12,109	17,223	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	(17,961)	(356,736)	21,037	324,318	12,109	17,223	-

[1]Includes Subordinated bonds amounting to TL 35,758 in over 5 year line.
[2]Derivative financial instruments include in other liabilities.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Interest rate risk (continued)

	Less than 1month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2015							
Assets							
Cash and cash equivalents	166,529	-	-	-	-	2,607	169,136
Reserve deposits at Central Bank	-	-	-	-	-	46,692	46,692
FVTPL investments	14,353	1,401	7,295	-	-	-	23,049
Available for sale investments	589	2,747	1,129	-	-	30,119	34,584
Loans and advances to customers	68,998	127,722	104,488	124,345	5,768	390	431,711
Other assets	-	-	-	-	-	10,968	10,968
Total assets	250,469	131,870	112,912	124,345	5,768	90,776	716,140
Liabilities							
Funds borrowed	49,061	91,598	20,891	-	-	-	161,550
Debt securities issued	69,559	73,609	208,488	30,744	-	-	382,400
Other liabilities[1]	22,985	-	56	-	-	149,149	172,190
Total liabilities	141,605	165,207	229,435	30,744	-	149,149	716,140
On balance sheet interest sensitivity gap	108,864	(33,337)	(116,523)	93,601	5,768	(58,373)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	108,864	(33,337)	(116,523)	93,601	5,768	(58,373)	-

[1]Derivative financial instruments include in other liabilities.

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Exposure to interest rate risk sensitivity

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income based on the floating rate non-trading financial assets and financial liabilities and trading financial assets and liabilities held at 31 December 2016 and 31 December 2015. The sensitivity of equity is calculated by revaluing available for sale financial assets at 31 December 2016 and 31 December 2015 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

2016	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets designated at fair value through profit or loss	-	-	-	-
Available for sale financial assets	-	-	(81)	81
Floating rate financial assets	-	-	-	-
Total net	-	-	(81)	81

2015	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets designated at fair value through profit or loss	-	-	-	-
Available for sale financial assets	-	-	(33)	33
Floating rate financial assets	-	-	-	-
Total net	-	-	(33)	33

XXX. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Summary of average interest rates

As at 31 December 2016 and 31 December 2015, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2015			31 December 2015		
	Euro	USD	TL	Euro	USD	TL
Assets						
Cash and balances with the Central Bank	-	-	-	-	-	-
Due from banks	0.03	0.60	9.44	0.25	0.40	11.44
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	10.93
Available for sale financial assets	-	8.67	13.46	-	-	12.10
Loans and advances to customers	6.70	9.20	16.55	5.67	9.75	13.44
Other	-	-	-	-	-	-
Liabilities						
Other money market deposits	-	-	-	-	-	10.88
Funds borrowed	3.39	2.46	10.99	3.45	1.74	10.36
Debt securities issued	-	10.00	11.89	-	-	10.89
Funds from other financial institutions	1.02	0.56	9.72	2.41	2.26	10.47

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

e) Operational risk (continued)

The Bank calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette no. 28337 dated 28 June 2012 and, using gross profit of the last three years, 2013, 2014 and 2015. The amount calculated as TL 64,002 Thousand as at 31 December 2016 (31 December 2015 - TL 42,161 Thousand) represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk

f) Capital management

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank; BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

• Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.

• Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of available-for-sale financial assets and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

XXX. Financial risk management objectives and policies (continued)

f) Capital management (continued)

There have been no material changes in the Bank's management of capital during the period.

The Bank's capital position in accordance with BRSA regulations is as follows:

	31 December 2016	31 December 2015
Amount subject to credit risk (I)	1,171,858	518,975
Amount subject to market risk (II)	50,285	44,288
Amount subject to operational risk (III)	64,002	42,162
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	1,286,145	605,425
Shareholders' equity:		
Tier 1 capital	155,851	125,414
Tier 2 capital	67,148	5,727
Total regulatory capital	222,999	131,141
Capital adequacy ratio	17.34%	21.66%

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

g) Fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Bank's classification of each class of financial assets and liabilities and their fair values.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2016							
Cash and cash equivalents	5	-	136,314	-	-	136,314	136,314
Reserve deposits at Central Bank	5	-	84,066	-	-	84,066	84,066
FVTPL investments	6	2,593	-	-	-	2,593	2,593
Available for sale investments	7	-	-	45,514	-	45,514	45,514
Loans and advances to customers[1]	8	-	777,401	-	-	777,401	777,401
Other asset		-	-	-	116,716	116,716	116,716
		2,593	997,781	45,514	116,716	1,162,604	1,162,604
Funds borrowed[1]	11	-	-	-	175,961	175,961	175,961
Debt securities issued[1]	12	-	-	-	525,853	525,853	525,853
		-	-	-	701,814	701,814	701,814

[1]The Bank management assumes that the fair values of the loans and funds borrowed approximate their carrying values since the majority of them are short-term.

XXX. Financial risk management objectives and policies (continued)

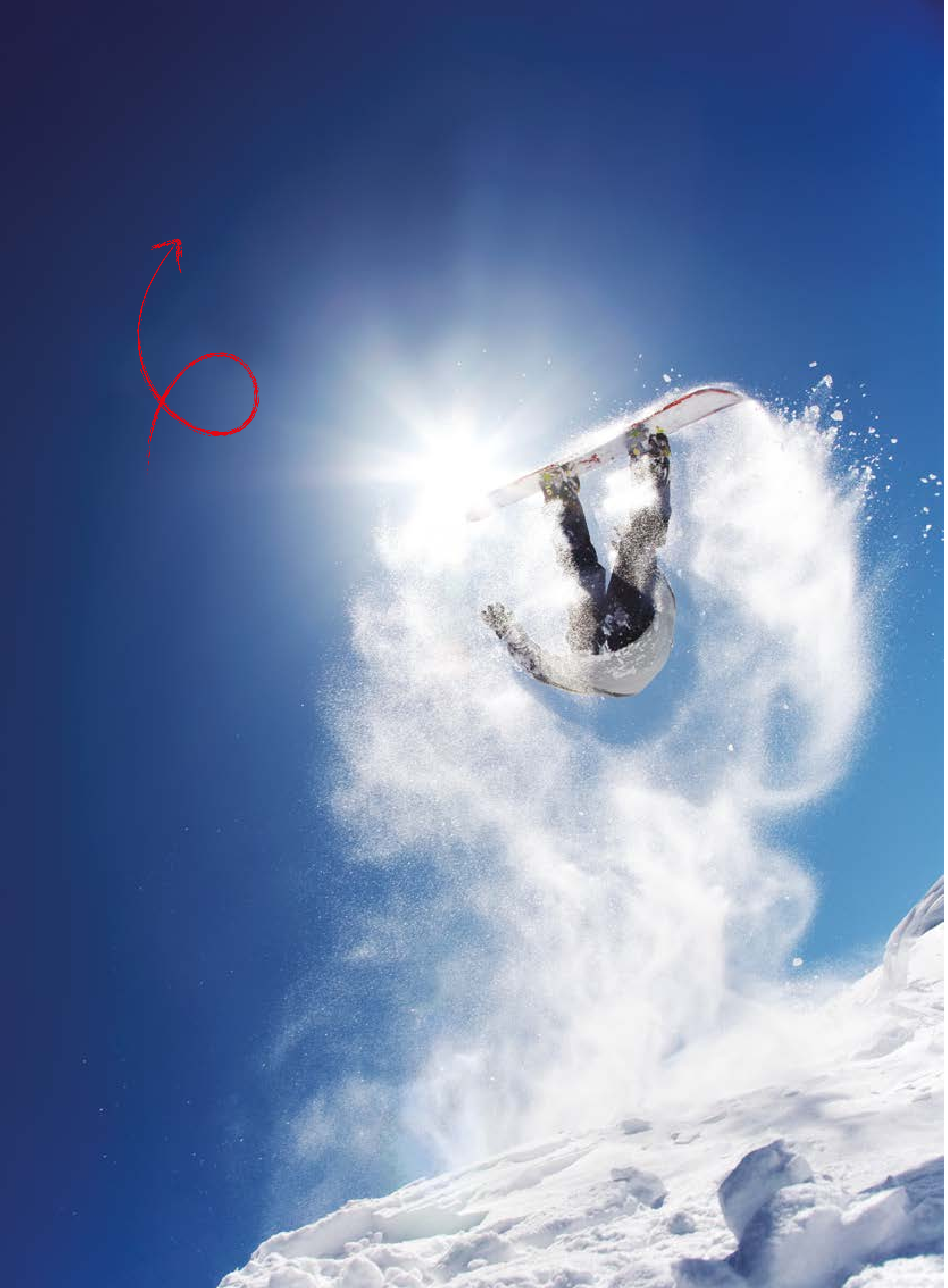
g) Fair values (continued)

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2015							
Cash and cash equivalents	5	-	169,136	-	-	169,136	169,136
Reserve deposits at Central Bank		-	46,692	-	-	46,692	46,692
Held for trading investments	6	23,049	-	-	-	23,049	23,049
Available for sale investments	7	-	-	34,584	-	34,584	34,584
Loans and advances to customers[1]	8	-	431,711	-	-	431,711	431,711
Other asset		-	-	-	8,213	8,213	8,213
		23,049	650,539	34,584	8,213	713,385	713,385
Funds borrowed[1]	11	-	-	-	161,550	161,550	161,550
Debt securities issued[1]	12	-	-	-	382,400	382,400	382,400
		-	-	-	543,950	543,950	543,950

[1]The Bank management assumes that the fair values of the loans and funds borrowed approximate their carrying values since the majority of them are short-term.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.



XXX. Financial risk management objectives and policies (continued)

g) Fair values (continued)

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.
Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(Currency - In thousands of Turkish Lira)

XXX. Financial risk management objectives and policies (continued)

g) Fair values (continued)

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

31 December 2016	Note	Level 1	Level 2	Level 3	Total
Derivative financial assets		2,593	-	-	2,593
Available for sale investments	7	45,514	-	-	45,514
Derivative financial liabilities		-	(12,703)	-	(12,703)
Investment property					
		48,107	(12,703)	-	35,404

31 December 2015	Note	Level 1	Level 2	Level 3	Total
Derivative financial assets		-	23,049	-	23,049
Available for sale investments	7	34,584	-	-	34,584
Derivative financial liabilities		-	(457)	-	(457)
		34,584	22,592	-	57,176

XXXI. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions.

In the course of conducting its banking business, the Bank conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the period are as follows:

31 December 2016	Balance	Percentage of the financial statement amount (%)
Cash loans	-	0%
Non-cash loans	28,142	6%
Funds borrowed	9,970	6%

XXXI. Related parties (continued)

31 December 2015	Balance	Percentage of the financial statement amount (%)
Cash loans	70	0%
Non-cash loans	36,253	13%
Funds borrowed / Current accounts of loan customers	16,573	14%

31 December 2016	Balance	Percentage of the financial statement amount (%)
Interest income	13,666	10%
Interest expense	-	-
Other operating expense (-)	(4,160)	17%

31 December 2015	Balance	Percentage of the financial statement amount (%)
Interest income	2,473	3%
Interest expense	-	-
Other operating expense (-)	(3,033)	15%

As at 31 December 2016, no provisions have been recognised in respect of loans given to related parties (2015 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 5,801 comprising salaries and other benefits for the period 1 January-31 December 2016 (1 January - 31 December 2015: TL 5,185).

XXXII. Events after balance sheet date

None.

Headquarters, Istanbul

Büyükdere Cad. Nurol Plaza No:257 Kat:15 34450 Maslak Sarıyer/İstanbul
T: 0 (212) 286 81 00
F: 0 (212) 286 81 01
E: Nurolbank@Nurolbank.com.tr

Ankara Branch

Karum İş Merkezi C Blok Kat:4 No:403 06700 Kavaklıdere/Ankara
T: 90 (312) 455 14 90 Pbx
F: 90 (312) 455 14 95

nurolBANK

www.nurolbank.com.tr