nurolBANK

ANNUAL REPORT 2017


nurolBANK

GÖREME

CONTENTS

DOORWAY TO THE WORLD OF INVESTMENTS

Trust, one of the most crucial values of the world of investments… Hence, our aspiration in everything we do is becoming a trustworthy solution partner who is capable of standing "as solid as a door" under all circumstances, who is able to adapt to swift changes duly, who drives the investments with their experience and who is also able to create a difference with their knowledge.

We worked hard in 2017 to overcome the roadblocks when Turkey and the world faced with significant changes, uncertainties and compelling circumstances; we aimed to get a foot in the door of opportunities in all areas we serve. We continued to grow and to help our clients to flourish with our firm stance, in a year when significant economic, political and social developments took place.

Each door to us is a gateway to other doors which all open to new experiences, achievements and opportunities… As we move forward, we are certain that new doors will be open on our way and they will all lead us to new avenues. Key to our success is hidden behind these consistent and determined steps. With this awareness in mind, we will continue to open the safe doors to the world of investments in the new year (period) by focusing on our targets.

CHAIRMAN'S MESSAGE

Dear stakeholders, business partners and employees,

Last year, politics had a great impact on the world economy. The policies of US President Donald Trump, the rise of radicals in Europe, and the strain caused by North Korea all steered the markets. Following Trump's election in November, the US economy picked up pace and is expected to continue its growth moving into the future. The fall in the Dollar Index has helped increase the US' export capacity. The world economy seems to have entered a better period. The industry and manufacturing sector have displayed a growth trend that is expected to continue. The political moves of Russia, China and North Korea will definitely have an impact. As the Baltic Dry Index has increased, the currencies used in world trade such as the US Dollar and Swiss Franc have fallen in value. The currencies that sometimes replace commodities and commercial goods due to the growth in world trade have displayed a reverse trend and are being replaced by industrial goods and manufacturing in terms of importance. These developments have led to an increase in the Dow Jones Index. The Coal, Copper and Dow Jones Indices act in parallel to each other.

Additionally, the Mexican and Chinese Central Banks increased their interest rates in the last month of 2017. The developing countries show signs of increasing their interests rates in consideration of the rate increase in USA. China on the other hand, wants to put a stop to capital outflow, sustain the current account surplus, and ease the process of transferring savings from the state sector to the public sector; in other words, it wants to reduce private sector borrowings and prevent any further expansion of credits extended in China. It is uncertain when the impact of the FED's interest rate hike will be felt. The effects of the interest rate increases that have been received favorably in developed countries will show themselves in time in developing countries. The capital inflow to developing countries has had a positive effect on growth expectations. The increase in the unemployment rate, low grade inflation rate, and the expectations of a tax discount in the US positively affect the expectations regarding the world economy in 2018. The highest increase since 2010 was seen in global production.

Europe has increasingly become focused on nationalism. The economic crisis of 2008 and especially the phenomenon of migration witnessed have given rise to populist movements. Furthermore, the failure of the main political parties to come up with workable policies against the challenges of globalization and many other topics has set the stage for the rise of the populist parties; the rise in popularity of these parties in France, Italy and Holland, the election results in Germany, and the results of the referendum for independence from Spain in Catalonia have been a result of this movement. This situation increases the uncertainties in Europe in the mid-term, as well as putting pressure on the Euro. The general economic outlook in the USA and the uncertainties in Europe are both among the factors that could pull the parity down.

The changes in perception regarding the normalization process of the monetary policies in developed countries led to an increase in the risk premiums associated with them, while this increase was higher due to geopolitical risks where Turkey was concerned. The portfolio movements concerning Turkey lost steam in comparison to the beginning of the year, but continued to be higher than previous years in cumulative terms. Due to the fact that the secured loans limit of the Credit Guarantee Fund was reached and the demand for loans by enterprises levelled off, credit utilization settled into an equilibrium in the third quarter of the year. The improvement in the credit terms extended by the banks in spite of the tight monetary policy helped the financial conditions to continue to support economic activity in the third quarter.

Starting from the second half of September 2017, the geopolitical developments and statements issued regarding the normalization of developed nations' monetary policies caused some volatility in the domestic foreign exchange markets. In the third quarter of 2017, use of commercial loans decreased due to the fact that the Credit Guarantee Fund supported by the Treasury had approached the preset limit for secured loans. The delayed effect of macro level precautionary measures and the surge in domestic demand led to a rise in consumer loans. While personal loans display a strong trend, corporate loans seem to have reached a saturation point.

Following the dip in July, the increase in consumer price inflation reached 11.2% in September as the Turkish Lira devalued against the exchange rate basket and a resultant increase in import prices was seen, led by oil and basic metals. On the other hand, producer prices sustained their strong trend in the face of the increases in oil and metal prices in particular in the third quarter. In addition to the increase in costs, the increase in demand due to strong economic activity eliminated the downtrend which inflation could have taken. The economic activity indicators point to a strong economy and widespread resurgence in economic activity in the third quarter. In return, the domestic demand is expected to lose some steam but sustain its uptrend with a lessening effect of the supporting policies in the fourth quarter. We expect net exports to sustain their contribution to the growth due to the surge in the tourism sector, improvement in the global outlook, and the competitive level of the exchange rate.

The swift increase in the loan volume under the Treasury guarantee scheme and employment incentives granted under the name of this incentive campaign contributed to the 11.06% growth in the economy (based on TUIK's new national income calculation) in the third quarter. In 2018, 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 possible. 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

GENERAL MANAGER'S MESSAGE

Dear shareholders, customers and business partners,

I would like to share with you the pride of ending another year whereby we have been able to meet our objective of achieving accountability and sustainable growth:

In the last five years, we have been able to increase;
• Our equity by 111%.
• Our assets by 584%.
• Our total cash loans by 605%.

In achieving this level of growth;

• We improved our Capital Adequacy Ratio to a level above that of the Turkish Banking Sector.
• We kept our ratio of non-performing loans at a level lower than that of the Turkish Banking Sector and as such we are proud of our achievements.

As the management at Nurolbank, we are happy to say that we have put a successful year behind us in which we achieved a high level of success thanks to our employees who are highly specialized in their fields.

We enter 2018 with a heightened risk appetite where developing countries are concerned. The weakened state of the US Dollar in global markets positively affects the currencies of all developing countries led by the TL.

2018 is showing positive macro indicators and the year expected to see some global economic warming and an increase in inflation. The increase in oil prices will be reflected in producer costs and consequently in consumer prices, which in return will put a pressure on inflation.

The US could display a growth higher than its potential for the first time since 2008. The increase in wage inflation could start showing its effect on the key price indices from April 2018 onward. FED may increase interest rates three or more times as a counter measure against the increase in inflation.

Where Europe is concerned, the Germany-France-Italy sourced growth is likely to continue in 2018. The European Central Bank may tighten its monetary expansion program without facing any serious problems other than the March elections in Italy. The positive outlook on the European economy could have an upward effect on the Euro-US Dollar exchange rate in the first quarter of the year. However, the expected series of interest hikes and the pick up in the pace of inflation in the US after the second quarter may affect the rate negatively.

In 2018, G7 countries can expect a growth in their economies for the first time since 2009. A growth in excess of the potential could lead to inflationary pressures.

In spite of the serious problems Turkey has been faced with, such as losing its investment status, continuous devaluation of its currency's value in the last four years, the shocking events that have affected tourism and exports, the economy has not entered a recession or deep crisis. On the other hand, global realities point to an increase in borrowing costs for countries developing since 2012. In this context, global investor trust will play an important role. In open economies that depend highly on foreign sources of financing, the price of scaring global investors away could be very high. The increase in the price of crude oil due to the crisis in Saudi Arabia, the USD/TL rate increase due to the US visa issue, the inflation rate that seems to have settled around 12%, and the increased interest rate policy which the FED is following will be the main challenges in the new period.

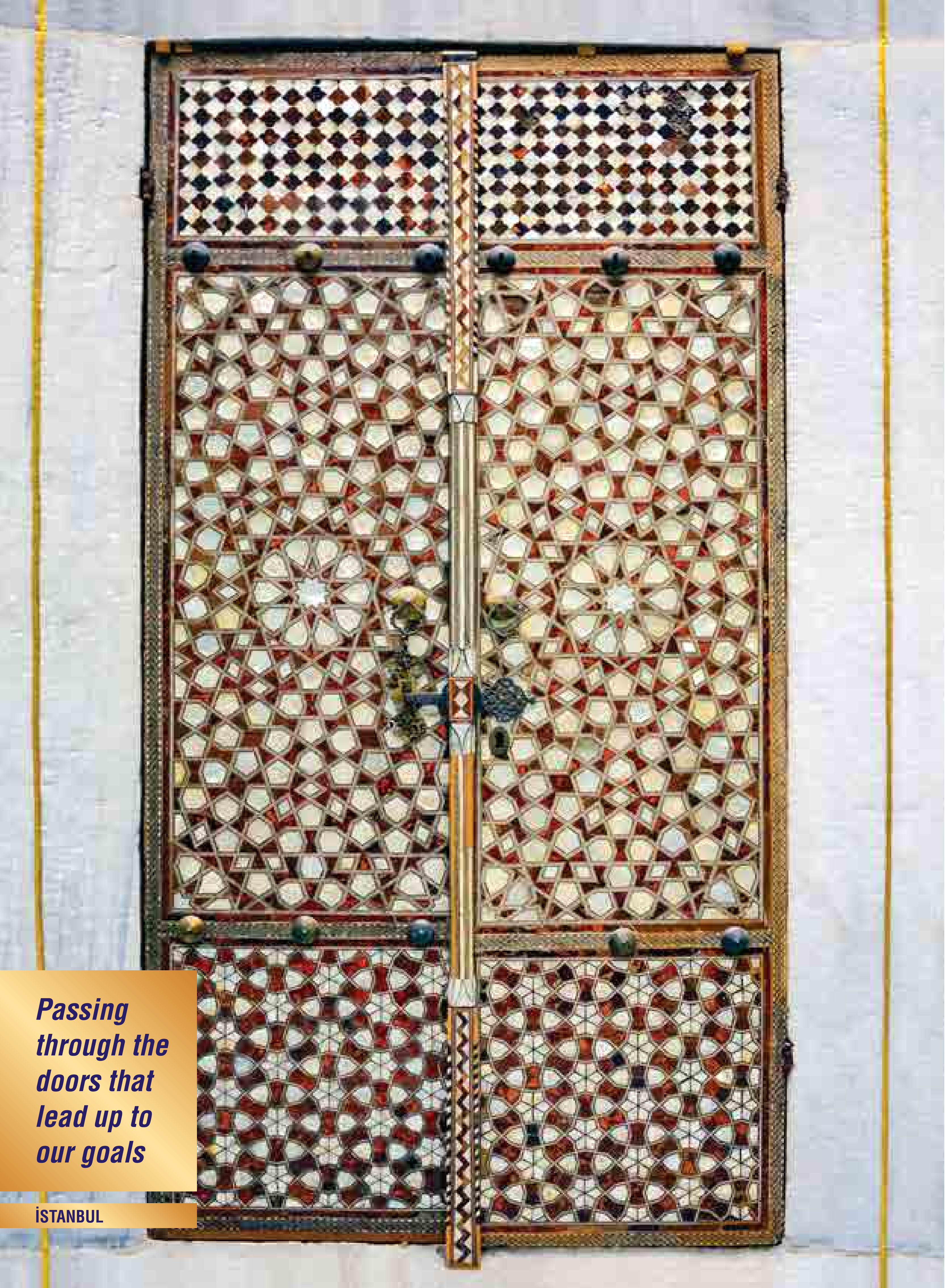
The acceleration in the growth of developed countries and especially the EU will have a positive effect on our economy through exports, as well as tourism. Seeing a positive move in investment expenditures, which have been lagging for quite some time now, would not be a surprise in consideration of the high capacity utilization rates parallel to these developments.

Relying on the success we increasingly maintained in 2017, our bank looks at the future with determination and hope. This common enthusiasm shared by all our employees raises our strength and motivation. As our relations with our customers continue to strengthen with each passing day, we endeavor to improve the diversity of our financial services and products based on our customers' needs and to accordingly update our existing services and products without compromising any of our primary values.

I fully believe in our potential to meet our 2018 targets in parallel with our vision of five years ago, as well as in consideration of the performance we displayed in previous years thanks to the spirit of teamwork we foster at Nurolbank. I would like to thank all our employees for their contributions.

Best Regards,

Özgür Altuntaş
Member of the Board of Directors and General Manager



Passing through the doors that lead up to our goals

İSTANBUL

ABOUT US, OUR VISION, OUR MISSION, OUR STRATEGY

About Us

Headquartered in Istanbul and having started its activities in 1999, 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, through 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 timely information and flexible financial solutions for businesses in today's ever-changing, interdependent, and fiercely competitive markets.

Our Vision

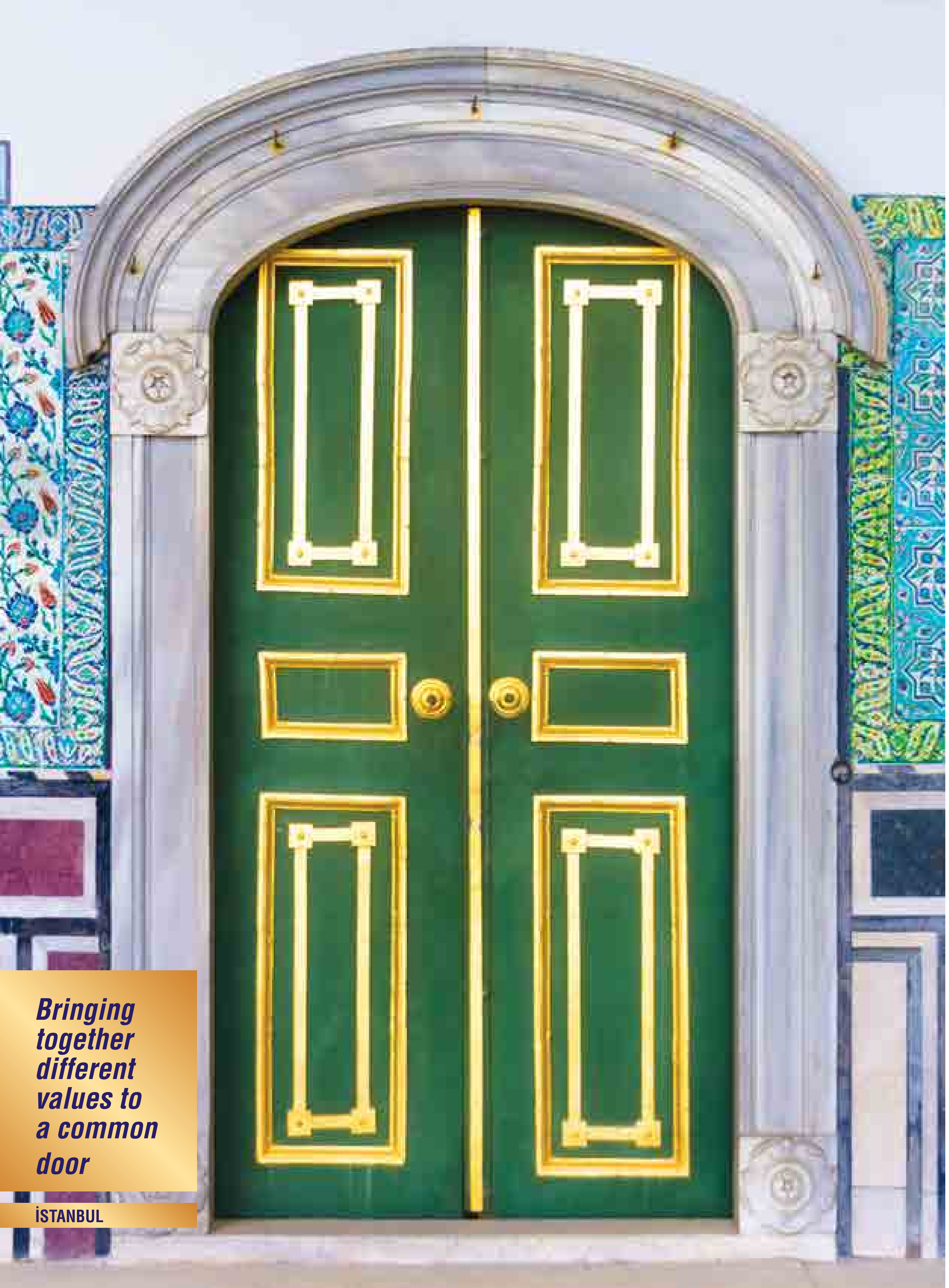
To offer solutions in line with globally-acclaimed standards to organizations in Turkey that are in need of financial support.

Our Mission

To identify customers' problems and needs accurately and offer tailor-made solutions; to become a bank which can put these solutions into action; to offer our shareholders a revenue at least equal to that of the market conditions; and to transform ourselves into a niche bank that can stand on its own two feet independently of the group.

Our Strategy

- To ensure that all our staff are instilled with the target-focused corporate culture and team spirit.
- To place importance on the diversity of sources and products.
- To develop products and services based on accurate identification of customers' needs, acting as an intermediary.
- To be Turkey's best investment bank.



CAPITAL, SHAREHOLDING STRUCTURE AND SHARES OF THE MEMBERS OF THE BOARD OF DIRECTORS

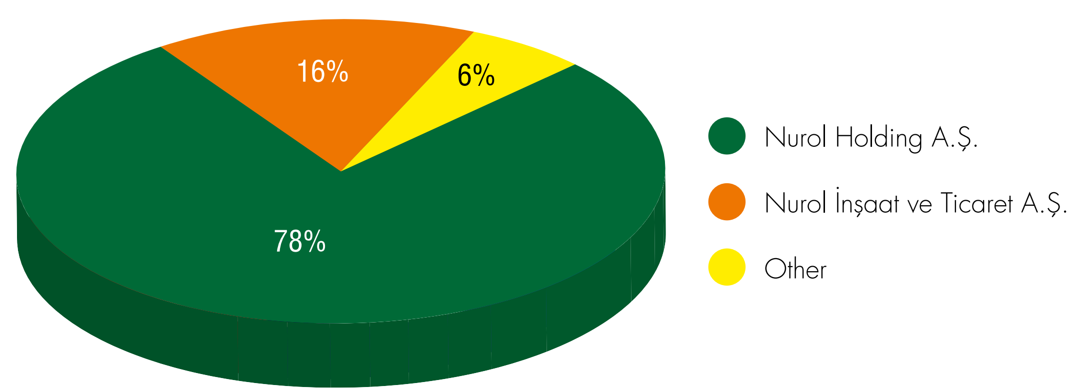
Our shareholders and capital structure as of December 31, 2017 are as follows:

Name-Surname / Trade Name	Number of Shares	Amount of Shares	Percentage of Shares
Nurol Holding A.Ş.	97,697	97,697	78.16%
Nurol İnşaat ve Ticaret A.Ş.	19,950	19,950	15.96%
Nurol Otelcilik ve Turizm İşletmeleri A.Ş.	1,103	1,103	0.88%
Nurettin Çarmıklı	1,111	1,111	0.89%
Erol Çarmıklı	1,111	1,111	0.89%
Mehmet Oğuz Çarmıklı	1,111	1,111	0.89%
Eyüp Sabri Çarmıklı	972	972	0.78%
Oğuzhan Çarmıklı	972	972	0.78%
Gürol Çarmıklı	486	486	0.39%
Gürhan Çarmıklı	486	486	0.39%
	125,000	125,000	100.00%

The Chairman and Vice Chairman's shares as of the end of 2017 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.

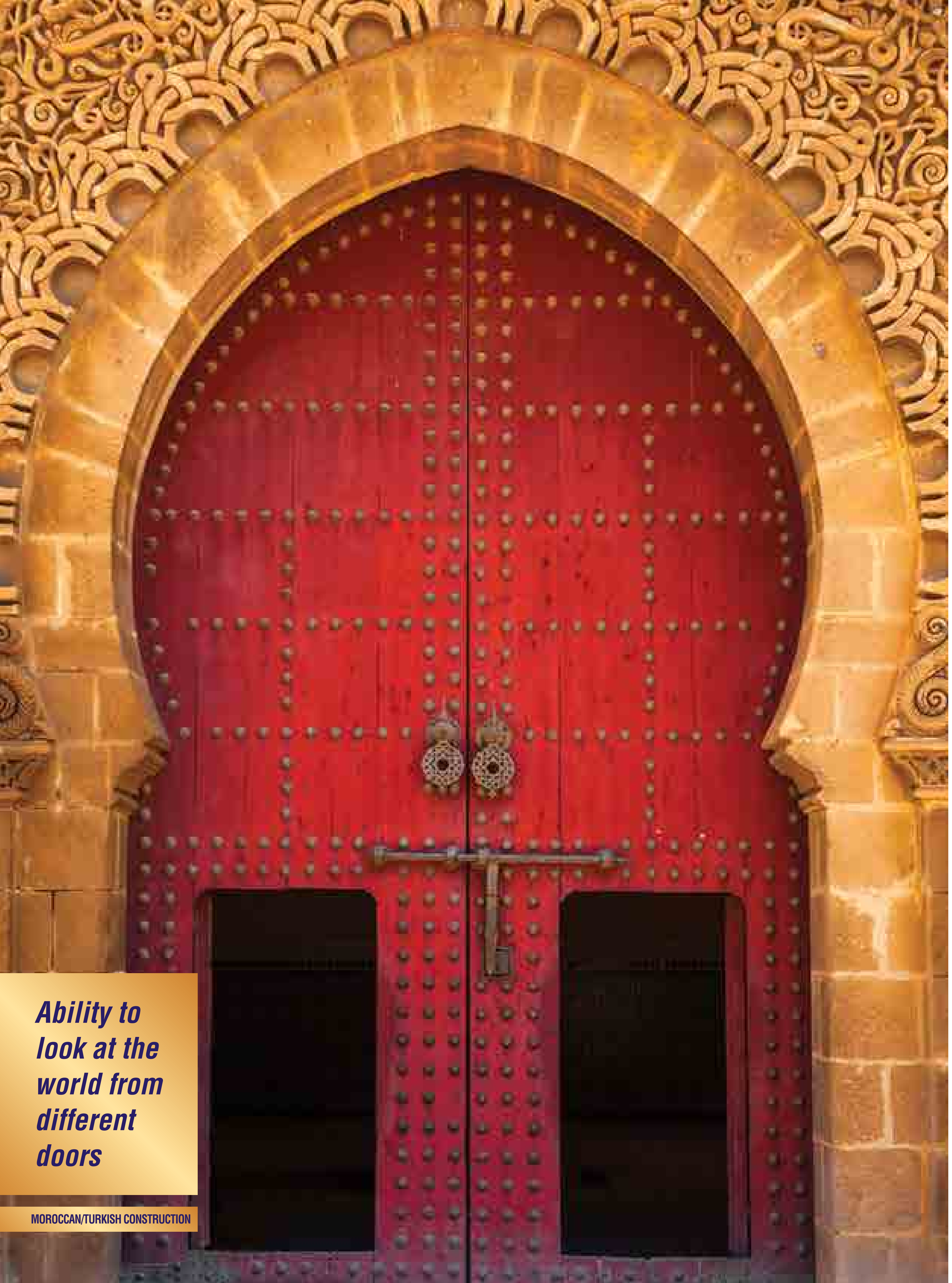
	Number of Shares	Percentage of Shares %
Mehmet Oğuz Çarmıklı - Vice-Chairman of the Board of Directors	1,111	0.89%
Eyüp Sabri Çarmıklı - Board Member	972	0.78%
Gürhan Çarmıklı - Board Member	486	0.39%

NUROLBANK SHAREHOLDING STRUCTURE



As per the resolution reached in the extraordinary meeting of the General Assembly held on 10.07.2017, the company capital has been increased to 125,000,000.00 TL from 45,000,000.00 TL, whereby 40,054,577.84 TL of this increase was met from the previous year's profits, 6,484,079.98 TL from profit on participation stock sales and 33,461,342.18 TL from 2016 profits.

In line with the increase in company capital , Article 7 of the Articles of Incorporation regarding capital has been amended and the amended agreement that has been approved by the Internal Trade General Directorate of the Ministry of Customs and Trade dated 08.06.2017 No. 25630724 was accepted unanimously.



Ability to look at the world from different doors

MOROCCAN/TURKISH CONSTRUCTION

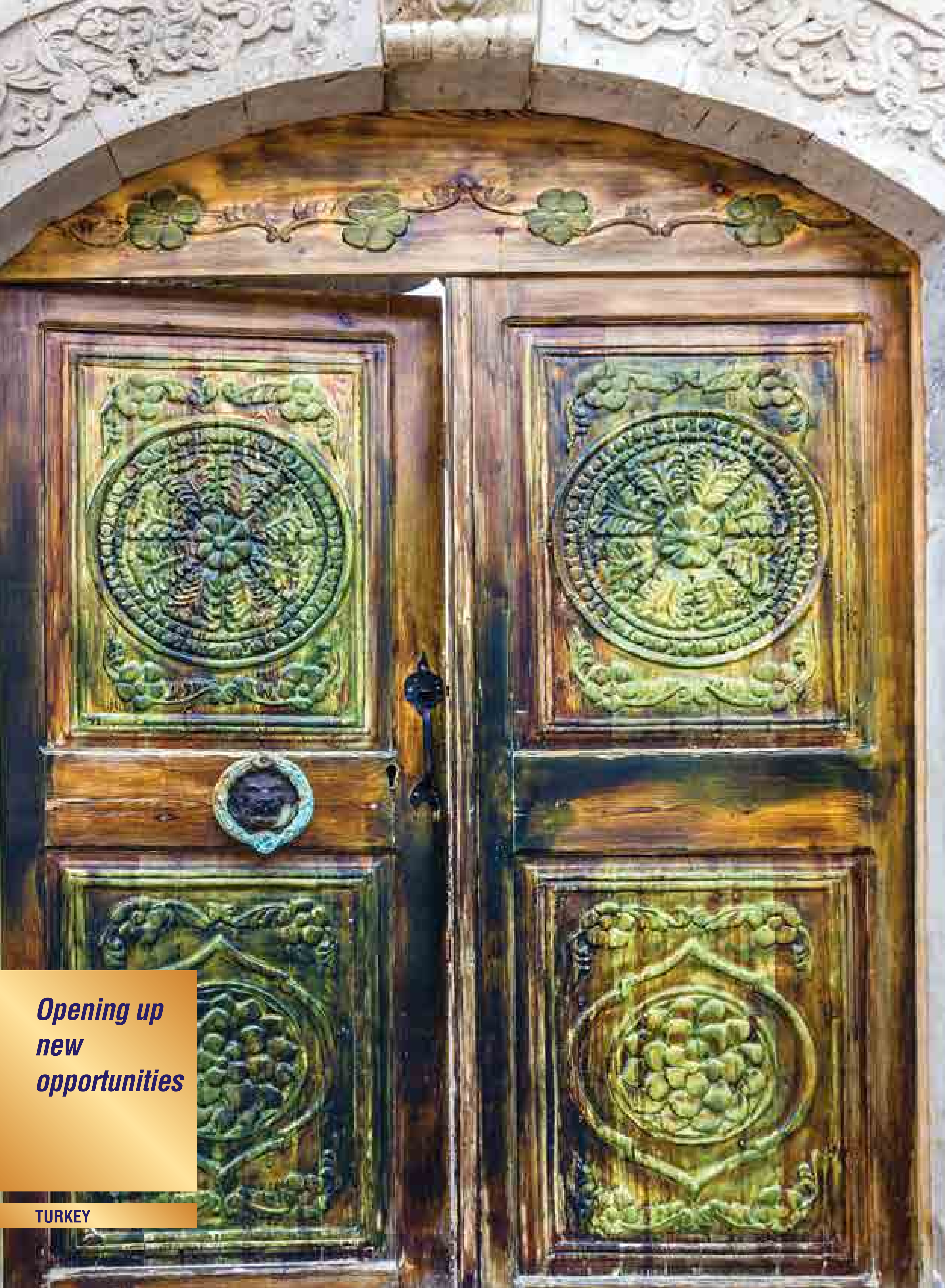
GLOBAL ECONOMIC OUTLOOK

The policy decisions of developed countries' central banks, developments regarding the tax reform in the USA, and the political developments in Europe were the subjects at the top of the global economic agenda in 2017. The global risk appetite has displayed a positive trend in the current environment where the central banks of developed countries have taken steps towards normalization, something which has been on the agenda for quite a long time, in a very slow and cautious manner. In the political arena, the developments experienced especially in Europe have created uncertainties. In the wake of the issues experienced in the Brexit process, the political tension escalated due to the Catalonian Parliament's decision to seek independence from Spain. Moreover, negative news regarding the establishment of a coalition government in Germany rose to the top of the agenda from time to time.

According to the Global Economic Outlook Report of the International Monetary Fund (IMF) for October, the world economy grew by 3.6% in 2017, and it is expected to grow by 3.7% in 2018. In the report, it is stated that the rapid increase of investment expenditures, trade volume, and industrial production on a global scale, as well as the improvements in consumer and real sector trust supported economic recovery. In the Economic Outlook Report issued by the Organization for Economic Co-operation and Development (OECD) at the end of November, it was indicated that strong improvements in the global economy would continue and the global growth estimates for 2017 and 2018 were stated as 3.6% and 3.7% respectively. The OECD indicated that policy makers are continuing to take steps in supporting the economy, but emphasized that the recovery in private sector investments was relatively weak.

In its last meeting of 2017, held on December 13, the US Central Bank (FED) increased the Federal Funds rate by 25 basis points to the 1.25-1.50% range in line with the expectations. As predicted the FED increased the interest rate three times, by a total of 75 basis points in 2017. According to the projections issued in the aftermath of the meeting, the FED members predict three more interest rate hikes in 2018. FED authorities estimate that the US economy will grow by around 2.5% in the years 2017 and 2018. On the other hand, the PCE inflation rate closely monitored by the FED remained under the 2% targeted level, although it increased to 1.8% in November.

In the US, the House of Representatives and the Senate approved a draft containing the most significant changes to the taxation system in the last 30 years. According to the draft legalized after being signed by President Trump, corporate tax has been permanently lowered to 21% from 35%, while the income tax rate has been temporarily decreased on the basis of varied income levels.



Opening up new opportunities

TURKEY

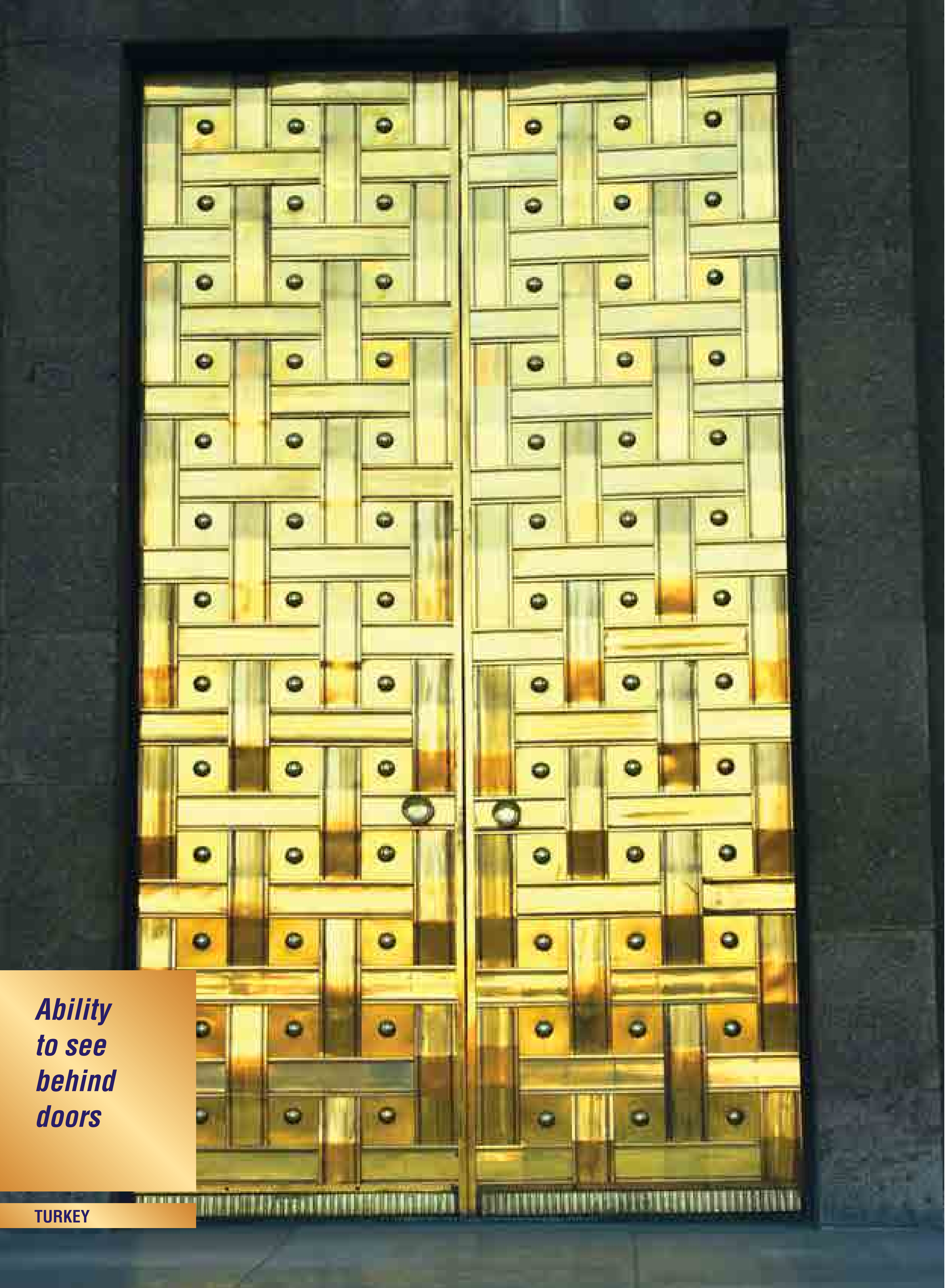
GLOBAL ECONOMIC OUTLOOK

In its meeting of December 14, the European Central Bank (ECB) did not change its monetary policy and kept the deposit rate at a -0.4% level, sustaining its asset purchase program that will be lowered to 30 billion EUR starting from January. The ECB increased its forecast regarding the growth in the Euro Zone from 2.2% to 2.4% for 2017 and from 1.8% to 2.3% for 2018, while leaving the inflation forecast for 2017 at 1.5% and increasing the 2018 forecast to 1.4%. President of the ECB, Mario Draghi stated that the inflationary outlook continued to look weak, but the deflationary risk in the region no longer existed. An annual CPI inflation of 1.5% was realized in the region.

The economic activity continued to strengthen in the Euro Zone. In October, the unemployment rate in the region decreased to 8.8%, the lowest level since January 2009. In addition to the weakening of the US Dollar, the positive outlook regarding the economic activity in the Euro Zone pushed the EUR/USD exchange rate up by 14.70% in comparison to the 2016 year-end. The parity followed a fluctuating course during the year to reach 1.2005 as of December 29, 2017.

The Bank of England (BoE) raised its interest rates for the first time in over 10 years in its November meeting, but maintained a 0.5% level in its meeting of December 14, along with sustaining its asset purchase program target of GBP 435 billion. The BoE stated that the risk of separating from the EU in an irregular manner has lessened as the first stage of Brexit discussions were completed, and that this would improve the confidence in the economy in the coming period.

Oil prices displayed a fast increase during December. The end of November meeting in which oil producing countries, both members and non-members of the OPEC, took the decision to extend the cut in production until the end of 2018, played a role in the price increase, along with a malfunction in one of the important pipelines in the Arctic Ocean. The fact that crude oil stock levels reached their lowest in two years in the US played a role in the upward movement of oil prices. By the end of 2017, the Brent crude oil barrel price displayed an annual increase of 21.1% at 67.3 USD. On the other hand, the price of gold that fluctuated under the influence of the US Dollar in 2017, closed with an annual gain of 13.1% at 1.303 USD/ounce as of December 29.



Ability to see behind doors

TURKEY

THE TURKISH ECONOMY

Turkey's risk perception was affected negatively due to geopolitical issues and the US visa problem experienced in 2017. As the TL weakened against USD and Euro, an increase was observed in government bond interest rates. However, a positive outlook was sustained due to the strong public sector support for economic activity and low base rate. In line with the expectations, the Turkish economy registered a growth of 5.2% and 5.1% respectively in the first and second quarters of 2017. On the other hand, in the third quarter of the year, the economy expanded beyond expectations at 11.1% (according to chain volume index) and displayed the highest growth rate in the last six years. The Organization for Economic Co-operation and Development (OECD) announced a growth rate forecast for the Turkish economy of 6.1% in 2017 and 4.9% in 2018.

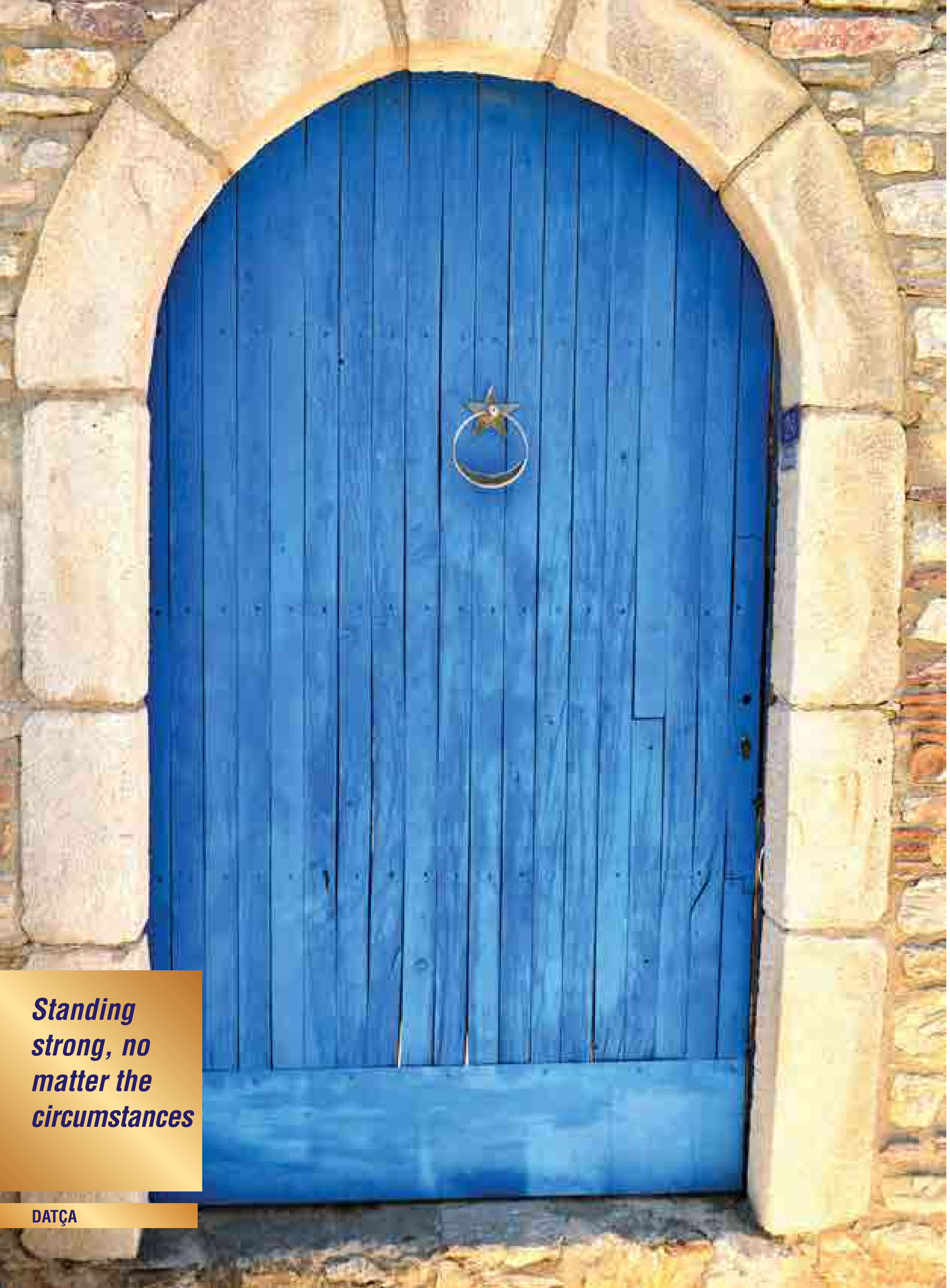
When the GDP is examined on the basis of the expenditures method, private consumption spending is observed to be the item with the highest contribution to growth, at 7 points in the third quarter. On the other hand investment expenditures ranked second, at 3.6 points in the third quarter, coming right after private consumption expenditures. The services sector contributed 5.7 points to the growth with the support of the recovery in tourism, followed by the industrial sector at 2.6 points, the highest in six years.

The increase in non-interest related spending, made in the name of supporting economic activity in 2017, had an impact on the expanding budget deficit. On the other hand, the recovery in economic activity limited the deterioration in the budget due to the tax revenues. In the first 11 months of the year, budget spending and revenues displayed an increase of 17.7% and 13.0% respectively. As such, the budget deficit displayed a swift increase rising up to 26.5 billion TL in this period.

The expansion in the foreign trade deficit continued in the month of November. In this period the export and import volumes increased 11.2% and 21.3% respectively, on an annual basis. Consequently, the foreign trade deficit displayed an annual increase of 52.4% and reached 6.3 billion USD. In spite of the surge in economic activity in the EU, the increase in oil prices and the favorable domestic economic activity put an upward pressure on the foreign trade deficit. In 2017, exports displayed an increase of 10.2% at 157 billion USD and imports increased by 17.9% reaching 234 billion USD.

The current deficit deteriorated in line with the expansion in the foreign trade deficit. In the first 10 months of the year, the current deficit increased by 33.7% to 35.3 billion USD in comparison to the same period in the previous year. According to the 12-monthly cumulative data, the current deficit reached its highest point since July 2015 at 41.9 billion USD. In addition to the recovery in loans, the acceleration in economic activity, as well as the rise in oil prices in the international markets, played a role in the deterioration of the situation. On the other hand, the recovery in tourism revenues restricted the growth in the current deficit to a certain extent.

The number of unemployed people aged 15 or over decreased by 360,000 in October 2017 compared to the same month of the previous year, reaching 3,287,000. The unemployment rate decreased by 1.5 points and stands at 10.3%. In the same period, the non-agricultural unemployment rate was estimated to be 12.3% with a decrease of 1.8 points. In the young population (15-24 years old), the unemployment rate was 19.3%, with a decrease of 1.9 points, while it was 10.5% with a decrease of 1.5 points in the 15-64 age group. In October 2017, the employment rate was 47.6% and the employment participation rate was 53.1%. The contribution of the services sector in particular to the employment rate increased, while the contribution of the industrial sector decreased in this period.



Standing strong, no matter the circumstances

DATÇA

THE TURKISH ECONOMY

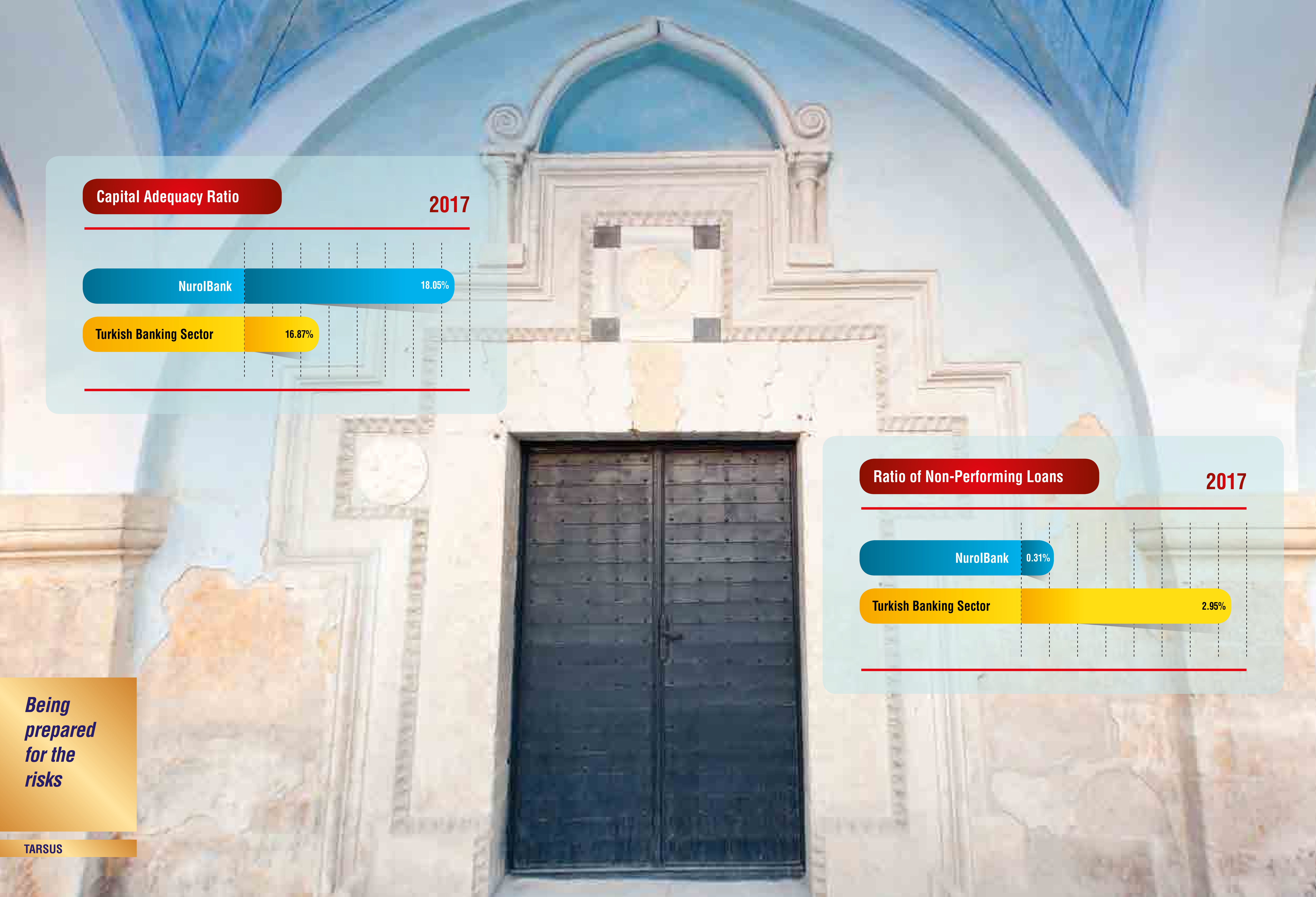
The Central Bank of Turkey (CBRT) implemented a tight liquidity policy in 2017. It stopped its weekly repo tenders and started to fund the market through late liquidity window (LLW) at the upper limit of the interest rate corridor. Furthermore, the banks were allowed to use their foreign currency deposit accounts in return for their TL deposit accounts. In its monetary policy meeting of January 24, the CBRT increased its overnight lending rate by 75 basis points to 9.25%. For the purposes of limiting the deterioration in inflation, the CBRT decided to further tighten the liquidity and reemphasized its intention to apply additional monetary squeeze, if necessary, in all its meetings. In 2017, the CBRT increased its LLW interest rate by 275 basis points in total to 12.75%. Due to the increase in the fluctuation in exchange rates, it decreased the overnight borrowing limit of the banks (BAL) in the Interbank Money Market to zero, effective and valid as of November 22, and determined their intra-day transaction limit to be twice their BAL limit as of November 21. Consequently, the CBRT started to realize its daily funding through LLW starting from November 22 and the CBRT weighted average funding cost increased to 12.75%.

Annual CPI inflation, which followed a fluctuating course within the 9.2-12.9% band in 2017, was 11.92% at the end of the year. The upward pressure on inflation continued all throughout the year, starting from the first days of 2017. Increase in annual CPI inflation was the highest in nine years and above the market's expectations at 11.90% in October and 12.98% in November. The continued increase in the core inflation indicators gave rise to concerns that the two-digit inflation would remain with us as we move into the future. CPI increased by 0.69% in December 2017, to 11.92% on an annual basis, and 11.14% on a 12-monthly average basis. The highest monthly increase was seen in transportation at 1.69%. In December 2017, with regard to the main expenditure groups, there was an increase of 1.52% on food and non-alcoholic beverages, 1.18% on household items, 0.77% on housing, and 0.47% on restaurants and hotels, which are some of the groups included in the index. Domestic PPI increased by 1.37% on a monthly basis in December 2017, while the annual increase was 15.47%, and 12-monthly average increase was 15.82%

The BIST-100 index displayed a buyer-rich trend in December registering the strongest monthly performance in the year. The resolution reached in regards to the visa issue with the USA also lent some support to the index in the last days of the month. As of December 29, the BIST-100 index registered an increase of 10.9% in comparison to the end of the previous month and 47.6% in comparison to the previous year-end. In 2017, it reached an historical high point and closed the year at 115.333 points.

The TL experienced a steep loss in value in the month of January due to the devaluation of developing countries' currencies against the USD, as well as the domestic political developments and the decrease of Turkey's credit rating by Fitch. In the middle of the month, the USD/TL and EUR/TL rate reached all-time highs at 3.94 and 4.17, respectively. In the following days, the exchange rates settled back a little as the CBRT increased the cost of funding and a recovery was seen in the global risk appetite. On September 11, the USD/TL rate reached its lowest point in 2017 by falling below 3.40 as the USD lost value against other currencies in global markets in the first half of September. This development had an effect on the strong growth in the second quarter of the year. However, with the strengthening of expectations that the FED would implement an interest rate hike and the developments taking place in Northern Iraq, Turkey's risk perception continued to deteriorate causing the TL to lose further value in the last quarter. In November, the USD/TL and EUR/TL rate reached record highs at 3.96 and 4.72, respectively.

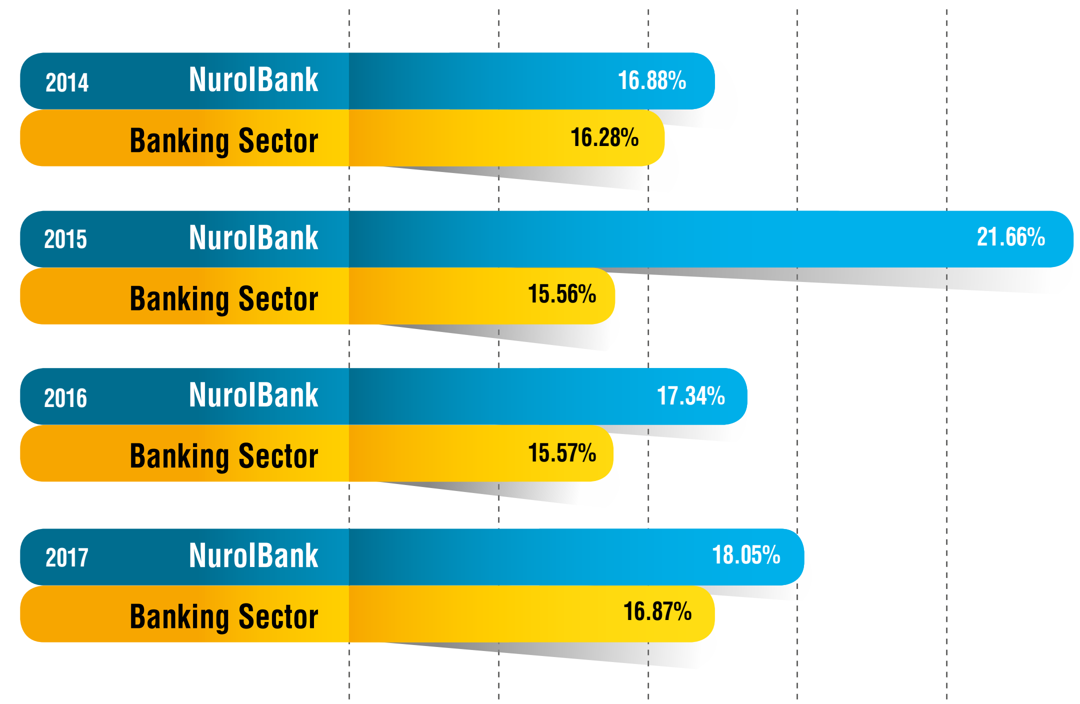

Return on Equity Ratio (By Income Before Tax)
2017
NurolBank
37.80%
Turkish Banking Sector
20.03%
Return on Assets Ratio (By Income Before Tax)
2017
NurolBank
4.99%
Turkish Banking Sector
2.04%
Raising the bar for success
BODRUM



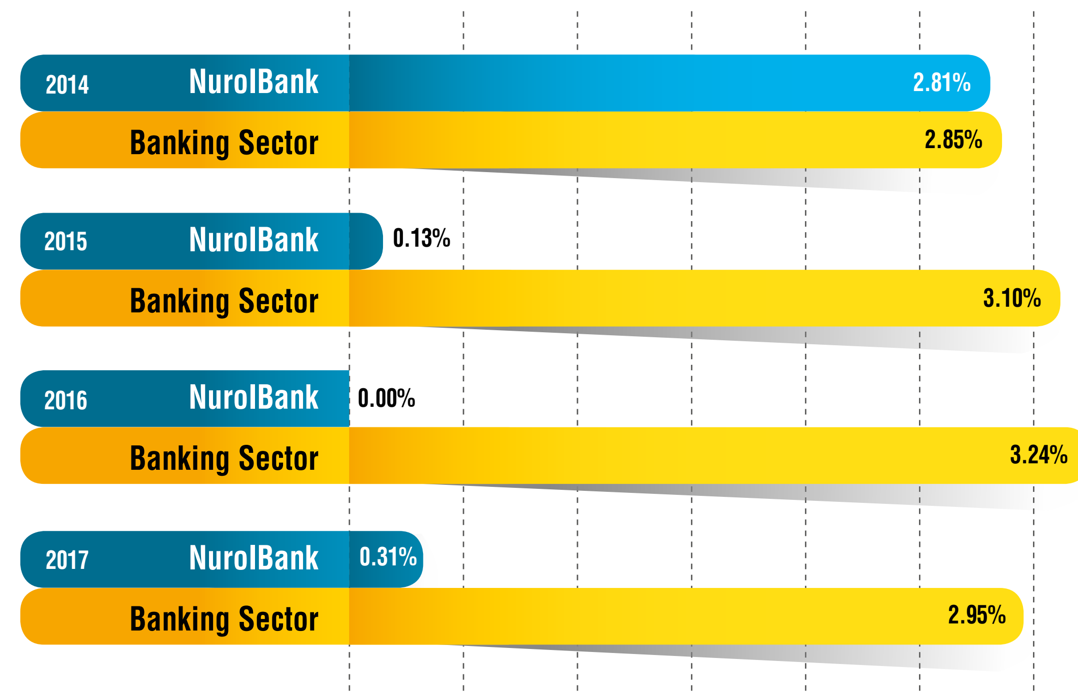
Being prepared for the risks

TARSUS

Capital Adequacy Ratio



Ratio of Non-Performing Loans



NUROLBANK'S 2017 ACTIVITIES and POSITION IN THE SECTOR

- Our bank's paid-in capital is 125 million TL and equity capital is 222 million TL as of December 31, 2017.
- The size of our bank's assets is 1,700 million TL as of December 31, 2017.
- Cash loans correspond to 1,061 million TL and constitute 62% of the total assets.
- Our Total Cash Loans Portfolio, which was 776 million TL as of the end of 2016, increased by 37% and reached 1,061 million TL as of December 31, 2017.
- Our Total Cash and Non-Cash Loans Portfolio is 1,668 million TL. Foreign currency loans make up 539 million TL (32%) of the Loans Portfolio and Turkish Lira loans 1,129 million TL (68%).
- As of 2017, cash loans constituted 1,061 million TL (64%) of our Loans Portfolio, while non-cash loans constituted 606 million TL (36%).
- Our capital adequacy ratio of 17.34% as of the end of 2016 increased to 18.05% as of the end of 2017.
- Our bank acted as an intermediary in the 85 million USD Eurobond issue of a Turkish Bank.
- It also continued to issue capital market debt instruments in 2017. Bills and bonds corresponding to 1,500 million TL in total were issued.

Affiliates

Nurol Varlık Kiralama A.Ş., an affiliate of Nurol Yatırım Bankası A.Ş., was established on 14.06.2017. The company closed the year 2017 with 0 profit/loss. Its has assets of 62,377 TL and an equity of 50,000 TL.

Credit Note from the Credit Rating Agency

In consideration of the periodic review of the cash flow from the continuing bond issue, in 2017, JCR-Eurasia Rating confirmed Nurol Yatırım Bankası A.Ş.' credit rating as "AA (Trk)" in the national long-term scale and "BBB-" in the international long-term foreign currency scale.

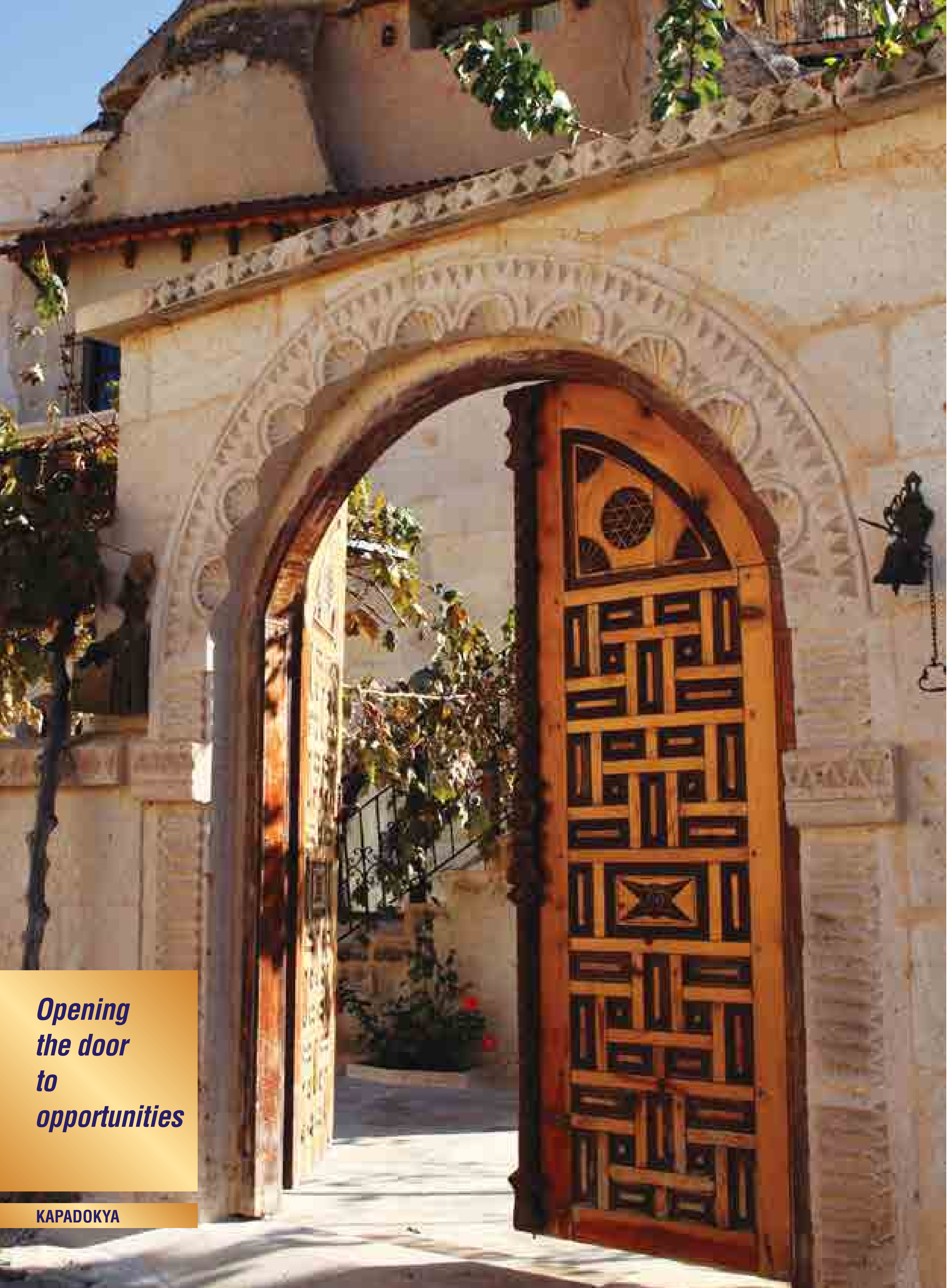
FINANCIAL INDICATORS

KEY FINANCIAL INDICATORS

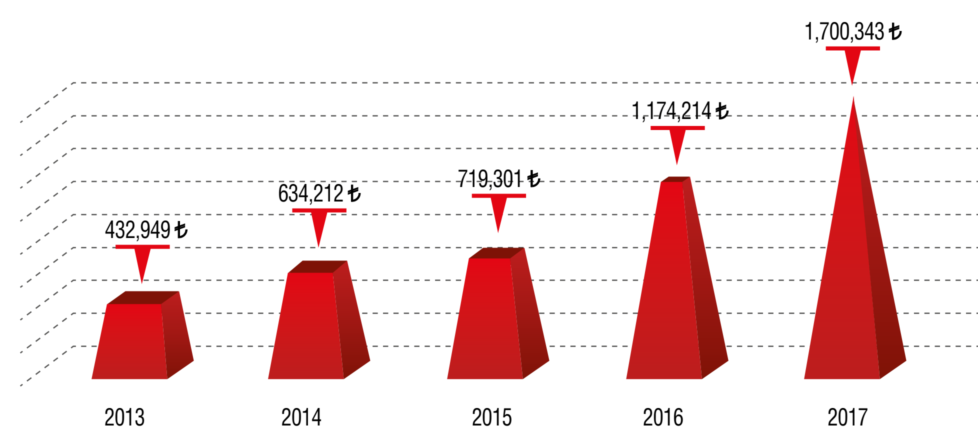
(TL'000')	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Total Assets	1,700,343	1,174,214	719,301	634,212	432,949
Banks and Other Financial Institutions	23,230	93,541	106,604	109,210	58,814
Securities	136,519	45,514	34,584	58,755	82,573
Total Loans (Cash)	1,061,666	776,800	420,312	339,805	219,569
Total Loans (Non-Cash)	606,437	542,776	269,511	308,225	375,443
Financial Leasing Receivables (Net)	-	-	8,792	12,336	17,594
Securities Issued	638,849	525,853	382,400	204,629	102,308
Loans Received	211,857	150,163	39,586	22,077	77,993
Borrower Funds	190,564	9,970	121,237	45,750	36,691
Subordinated Debts	57,267	53,364	-	-	-
Equity Capital	221,893	157,941	122,738	97,579	81,231
Profit/Loss Before Tax	71,792	46,305	24,809	20,769	-1,037
Net Profit/Loss	57,497	37,004	18,826	16,415	-551

PERFORMANCE RATIOS

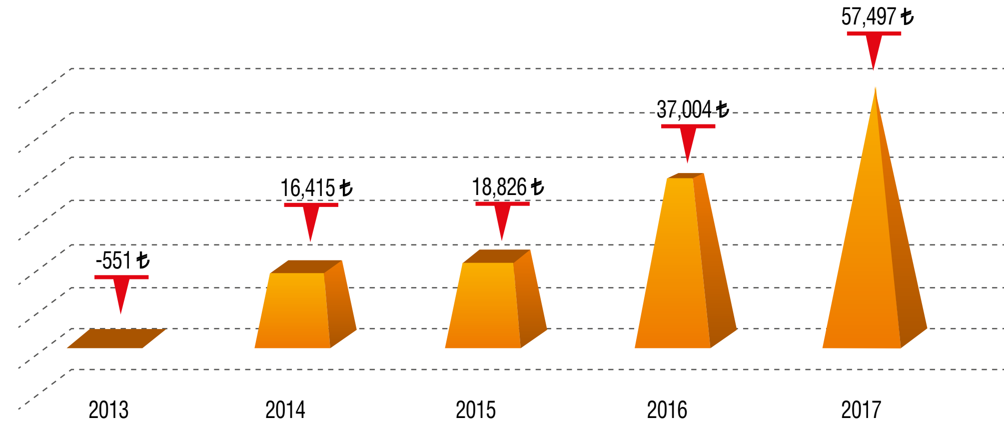
Ratios (%)	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Capital Adequacy Standard Ratio	18.05%	17.34%	21.66%	16.88%	14.20%
Average Return on Equity (By Profit Before Tax)	37.80%	32.99%	22.52%	23.23%	-1.11%
Average Return on Assets (By Profit Before Tax)	4.99%	4.89%	3.67%	3.89%	-0.30%
Fixed Assets / Equities	3.68%	15.06%	5.42%	11.36%	4.20%
Fixed Assets / Total Assets	0.48%	2.03%	0.93%	1.75%	0.79%
Interest Bearing Assets / Total Assets	71.93%	81.83%	91.10%	94.96%	94.38%
Loans / Total Assets	62.44%	66.15%	58.43%	53.58%	50.71%



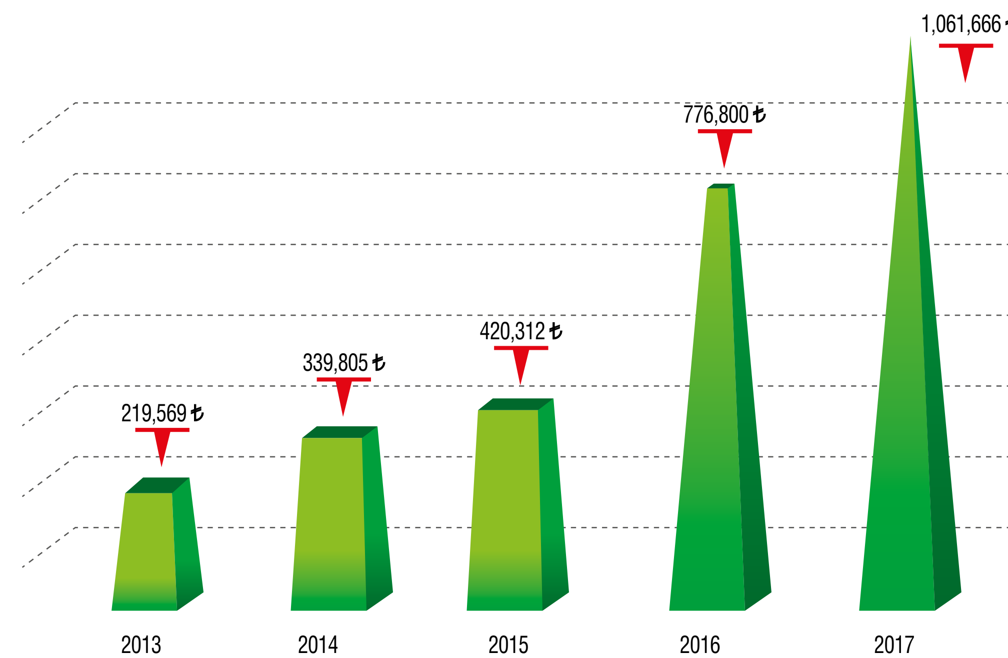
Total Assets



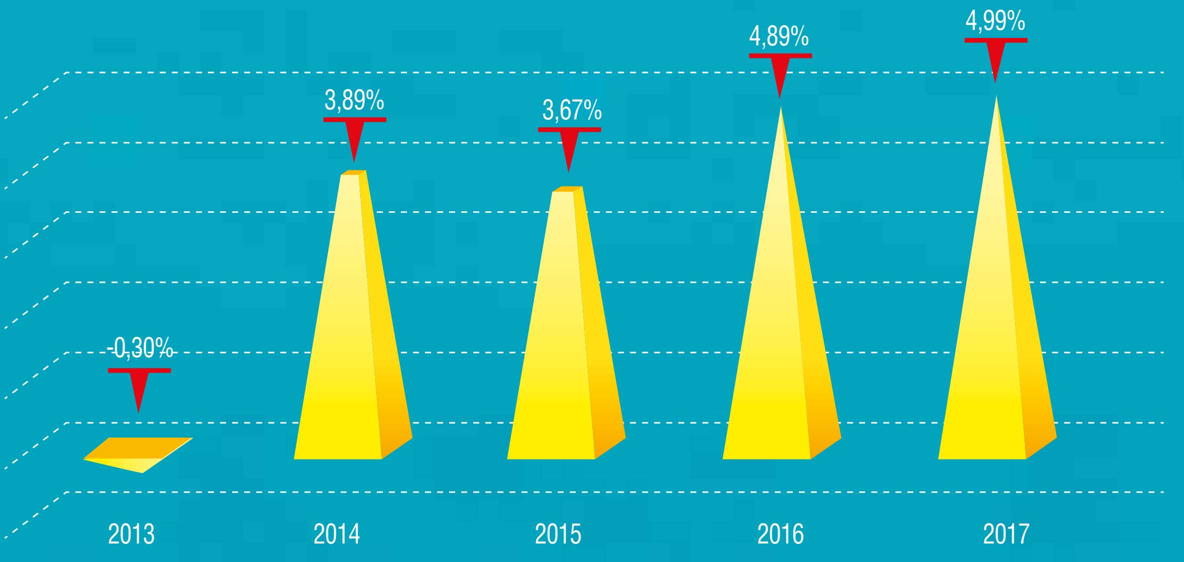
Net Profit



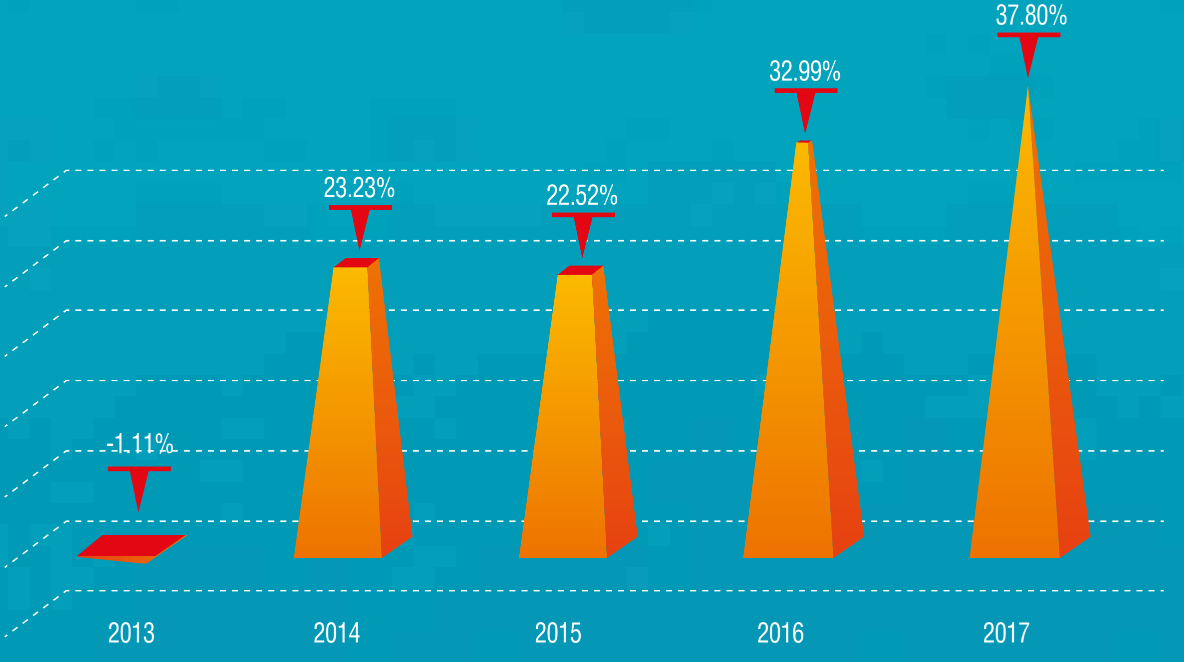
Total Loans



Average Return on Assets (By Profit Before Tax)

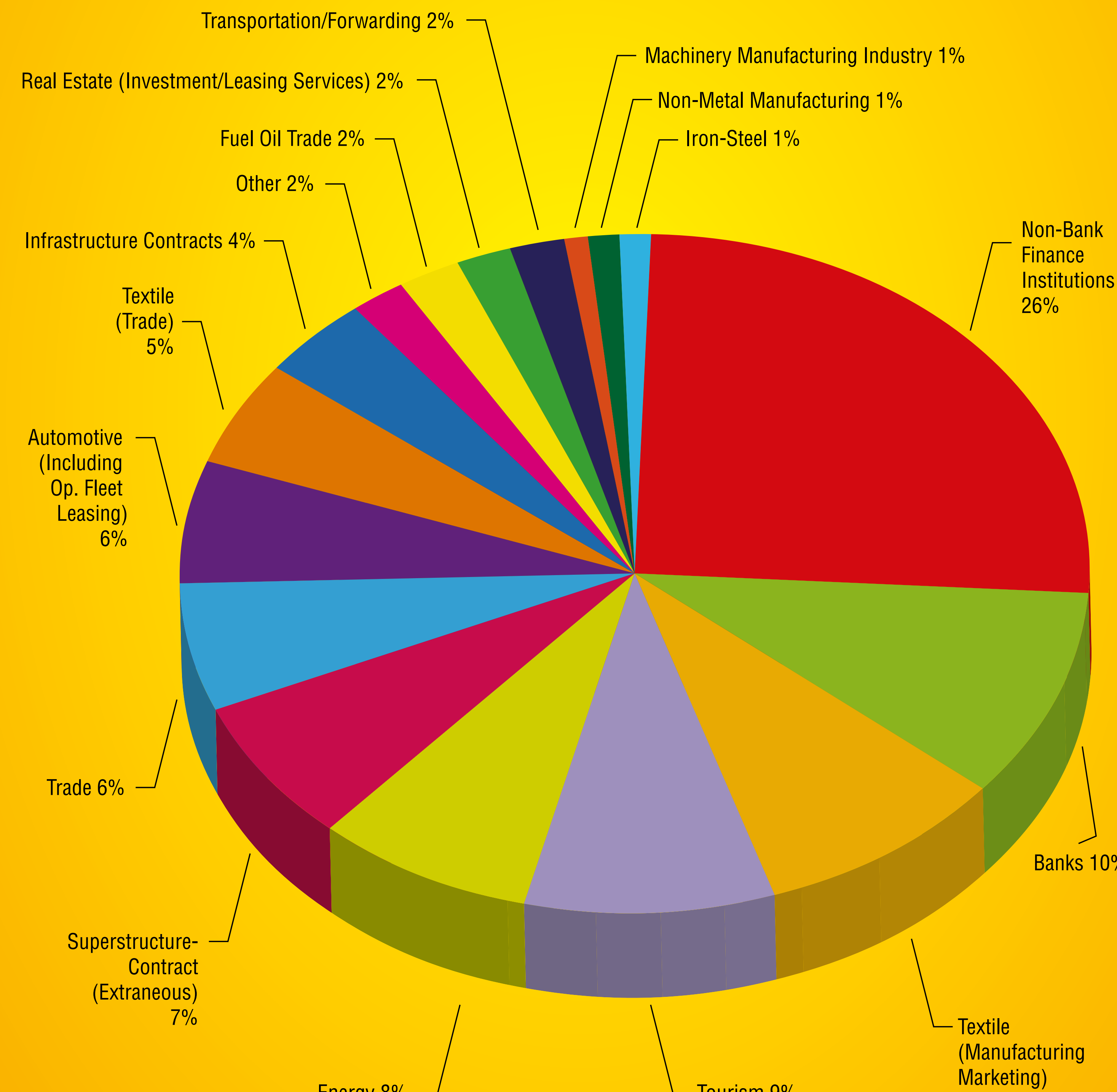


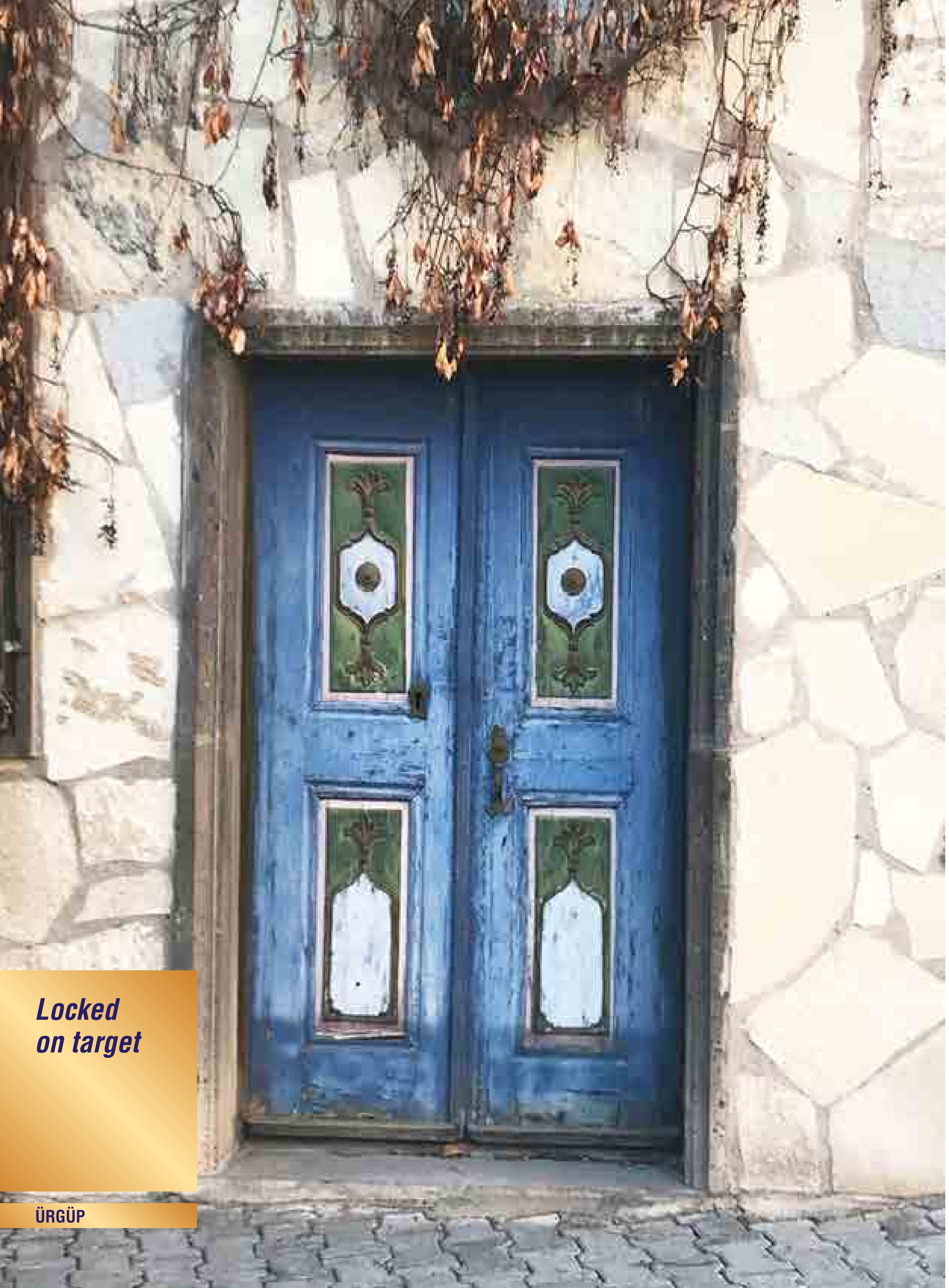
Average Return on Equity (By Profit Before Tax)



BODRUM

DISTRIBUTION OF TOTAL RISKS BY INDUSTRY





NUROLBANK 2018 TARGETS and EXPECTATIONS

- Incorporating firms operating in the commercial segment in our banking portfolio, which currently covers corporate banking, thereby increasing our diversity of sectors.

- Acting as an intermediary for private sector bond issuance, 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 reach 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 tailormade solutions that suit their requests, demands and structures. At both Nurolbank and the Group, we tap into our vast experience and knowledge in the transportation, energy and telecommunication industries while carrying out project feasibility analyses in the scope of key infrastructure investment projects. By supporting such projects, we earn strategic/financial partners and provide consulting services in the fields of structured 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 provides corporate finance-related consulting services, such as financing solutions consultation, to ensure domestic and international institutions make the most of capital and borrowing markets, and merger and acquisition consultation, 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 partners
- 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 by the bank and 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 customized 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.

In 2018, our department aims to identify growing businesses in selected industries, provide merger and acquisition consultation 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 supervisory and regulatory agencies, such as the Central Bank of Turkey, the Banking Supervision and Regulation Agency and the 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, 2017 was a year in which, as with 2016, significant volume increases were observed in major fields of activity. Our Department has successfully positioned itself vis-à-vis market developments, taken the necessary actions together with a team of experienced professionals and experts to protect the bank's standing, avoided liquidity-related bottlenecks thanks to its apt timing, ensured rapid information flow, and helped customers access first-hand information about the market. In 2017, the Nurol Yatırım Bankası Treasury Department successfully increased productivity and achieved sustainable profitability.

In 2018, we will continue to carry the product range beyond current treasury products in order to contribute to the Bank's profitability and efficiency, effectively manage risks revolving around markets, exchange rates, interests, liquidity and operations, ensure the necessary flow of information through market analyses, and support customers with regards to product pricing.

We will also continue to make a difference with our expert team and our innovative approach throughout the year ahead.

Financial Institutions and Investor Relations

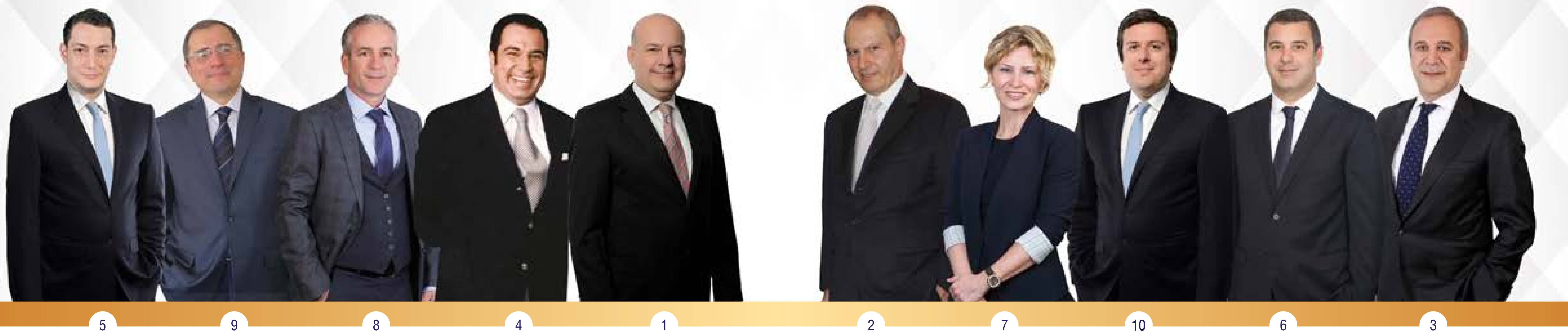
The Financial Institutions and Investor Relations Department works to achieve broader recognition of the bank in national and international markets, maintain the existing correspondent relations of Nurol Yatırım Bankası with national and international banks and institutions established and strengthened through the transactions of the Treasury Department, help establish contacts with new organizations and institutions in line with future needs, and issue debt instruments for the bank through capital markets. In 2017, the Department issued a total of 1.5 billion TL in 21 separate debt instruments.

Furthermore, Nurolbank acted as an intermediary in the 85 million USD Eurobond issue of a Turkish bank.

In 2017, the Treasury and Financial Institutions Department increased the number of correspondents it worked with to increase the volume of transactions realized in developing markets. In 2017, the L/C volume in financing foreign trade was greatly increased thanks to the newly established cash and non-cash credit limits with correspondent banks and moreover, correspondent diversity was achieved in funding sourced from international markets. In parallel to the bank's growing foreign trade and treasury trading volumes, accounts were opened in new currencies and the product range offered to customers was expanded. The funding obtained from domestic and foreign financial institutions reached 426 million TL and became an important item among the bank's liabilities.

Research and development practices for new services and activities

No research and development activity was 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

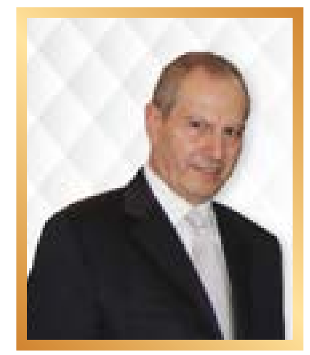
Maintain a strong stance due to experience

İSTANBUL

MEMBERS OF THE BOARD OF DIRECTORS

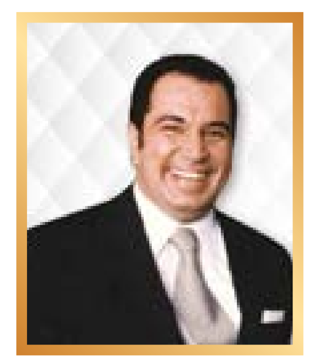
Ziya AKKURT
Chairman of the Board of Directors

Ziya Akkurt, a graduate of Public Administration from METU, started his career in Interbank in 1983. He worked in BNP-AK-Dresdner Bank's Credit and Marketing Department before gaining experience in Osmanlı Bank, Banque Paribas and Paris International's banking departments. Akkurt joined Akbank's 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 managing director board member responsible for loans in BNP-AK-Dresdner Bank, Akbank A.G, BNP-AK-Dresdner Leasing, and Ak Yatırım A.Ş. Ziya Akkurt has been serving as the Chairman of the Board of Directors of Nurol Yatırım Bankası A.Ş. as of February 2016.



Mehmet Oğuz ÇARMIKLI
Vice-Chairman of the Board of Directors

M. Oğuz Çarmıklı is a graduate of Civil Engineering from Istanbul State Engineering and Architecture Academy's Yıldız School of Engineering. He worked as a senior executive at Nurol İnşaat, which later became Nurol İnşaat ve Ticaret A.Ş., the first company in Nurol Group. Since 1999, he has been acting as the Vice-Chairman of the Board of Nurol Yatırım Bankası and as a member of the Pricing Committee as of December 13, 2011.



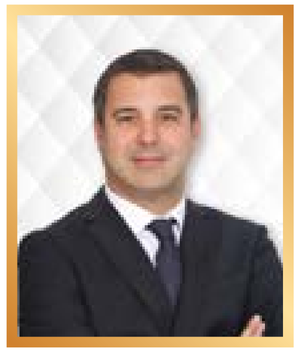
Dr. Eyüp Sabri ÇARMIKLI
Member of the Board of Directors

Çarmıklı graduated in Political Sciences at London Essex University in 1997. He continued his academic career at the University of Westminster, gaining 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. In 2011, he completed a PhD in Political Science at London Westminster University. Çarmıklı started his professional working life as an executive at the Riyadh branch of Nurol İnşaat Ticaret A.Ş. between 1991-1992. From 1992-1993 he held the position of Field Development Department Manager in Nurol İnşaat Ticaret A.Ş. He then 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. In September 2016, Çarmıklı also started to serve as a member of the Board of Directors of Nurolbank.

MEMBERS OF THE BOARD OF DIRECTORS

Ceyda ÇARMIKLI KILIÇASLAN
Member of the Board of Directors

Çarmıklı Kılıçaslan graduated in Economics at Bilkent University. She then completed Pepperdine University's MBA program. Having started working for Arthur Andersen in 2000, she later held positions at Nurol Yatırım Bankası and Nurol Holding A.Ş. She has been a Board Member of Nurol Yatırım Bankası since 2008 and Credit Committee Member since 2011.



Ahmet Kerim KEMAHLI
Member of the Board of Directors

Kemahlı was schooled at St. Edwards School, Oxford. He completed the Business Management program at Heriot-Watt University. In 1990, he started working for West LB, followed by Finansbank, Abalıoğlu Holding and Çelebi Holding. He has been acting as Nurol Holding Finance Coordinator since 2010, a Board Member for Nurol Yatırım Bankası since 2011, and an Audit Committee Member since 2014.

Mehmet Mete BAŞOL
Member of the Board of Directors

Başol received a BSc in Economics from Arizona University. Having embarked upon the profession in 1984, he worked in several positions at Interbank, Bankers Trust, and Deutsche Bank, in addition to acting as 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

Çarmıklı is a graduate of Economics and Business Information Management from Bilkent University. He has been a member of Nurolbank's Board of Directors since May 2016. He started his career at Nurol Holding's Finance Department in 2003. Between 2007-2008, he worked for the accounting and finance departments at FNSS A.Ş. Çarmıklı 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

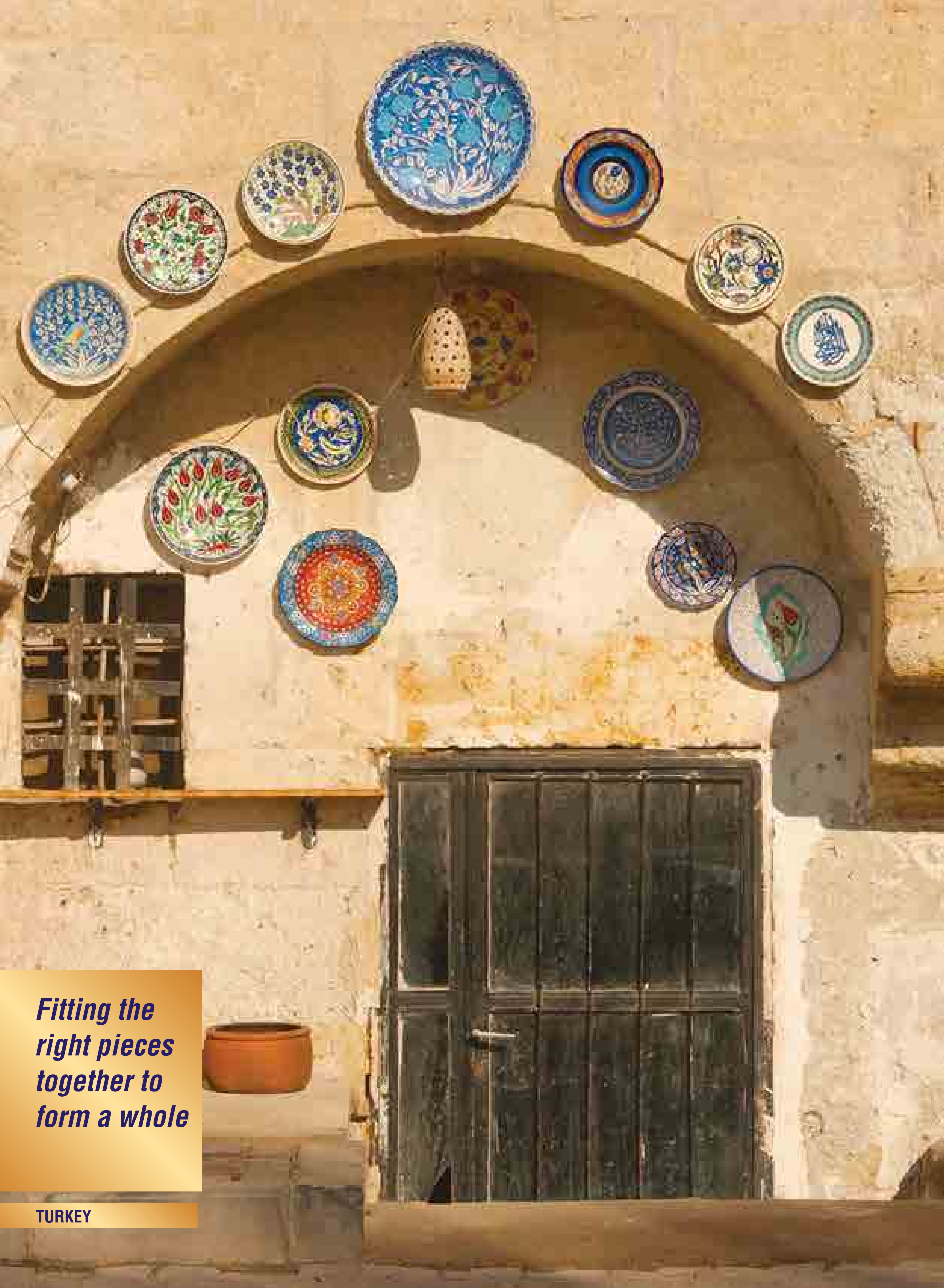
Şirin is a graduate of Political Sciences from Ankara University. He also has an MA from the University of Leeds. His professional career began in the Ministry of Finance's Inspection Committee in 1980, followed by roles including Head of Office at the Directorate General of Revenues, Deputy Undersecretary at the Ministry of Finance, Head of Finance at the Ministry of Public Works and Settlement, Vice President of the 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

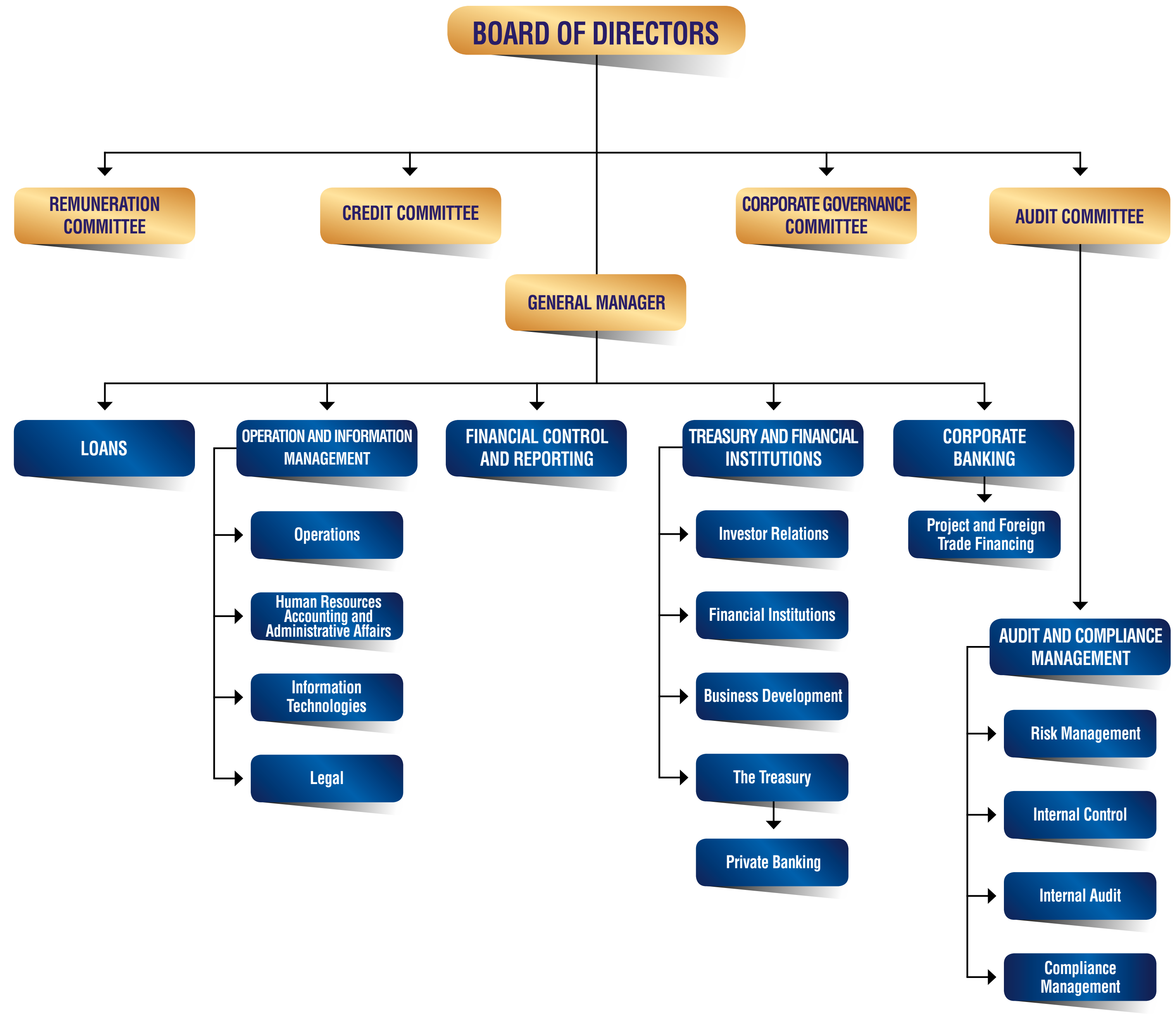
Serbest graduated from the Department of Business Administration at Istanbul University. His professional life started in 1989 at the Töbank T.A.Ş.' Treasury Department, after which he worked at Nurol Menkul Kıymetler A.Ş. Over the years he has held various positions, including Deputy Chairman of the 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 Yatırım Bankası.

Özgür ALTUNTAŞ
Member of the Board of Directors and General Manager

Altuntaş graduated in Managerial Engineering at Istanbul Technical University. Joining the Istanbul Bankers Trust in 1993, he worked for Garanti Bank in Amsterdam, AMEX Bank in Bucharest and Credit Suisse in London. He then 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 the Royal Bank of Scotland as Senior Assistant General Manager for two years until June 2013. On September 16, 2013, he became a Board Member and General Manager of Nurol Yatırım Bankası A.Ş.



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
ORGANIZATION CHART



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Senior Management

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

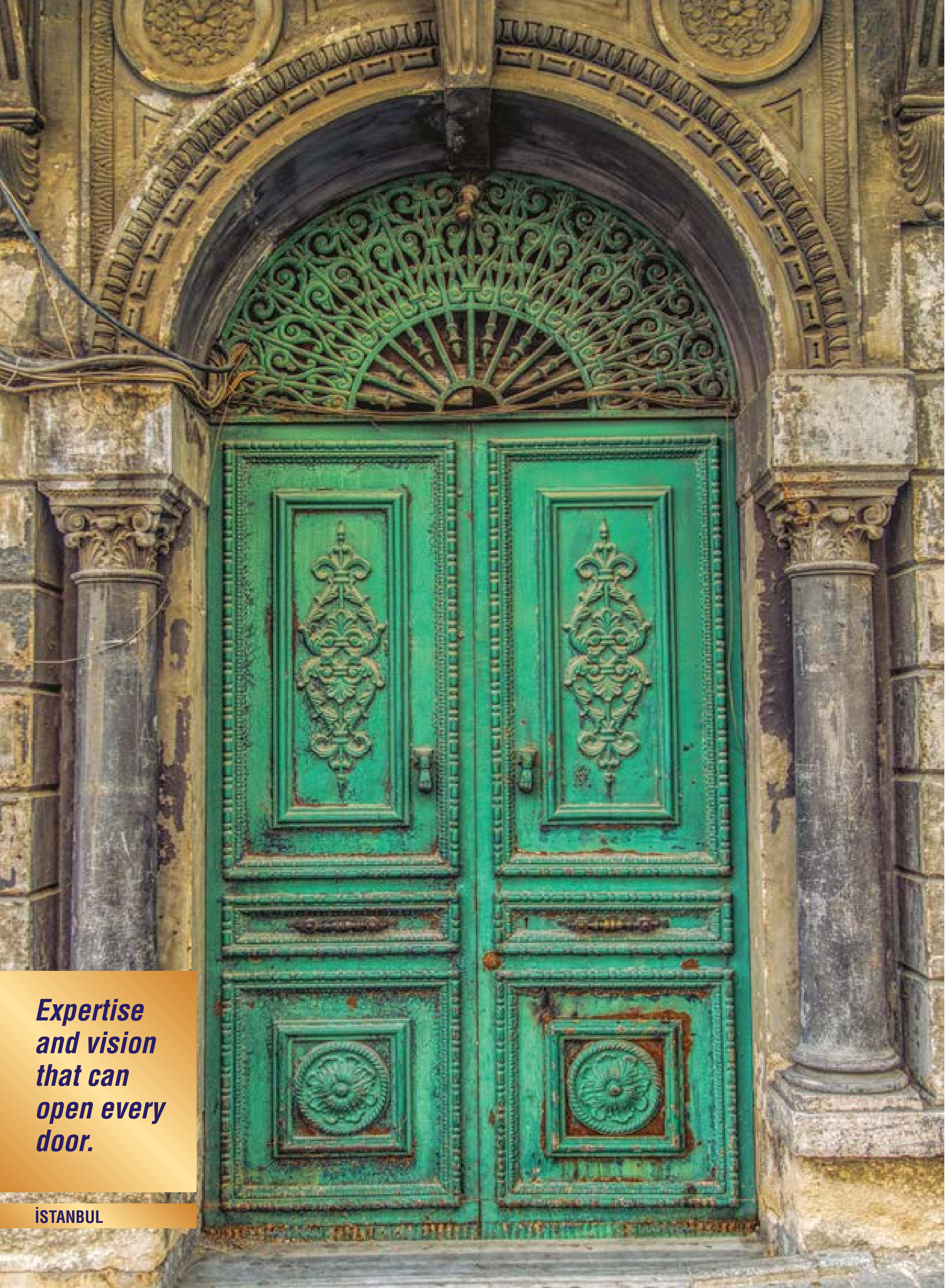
2 Zafer Babür HAKARAR
Treasury and Financial Institutions, Senior Assistant General Manager

3 Dr. Murat ÇİMEN
Loans, Senior Assistant General Manager

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

5 Yeliz BİLGİN
Investor Relations, Assistant General Manager

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



Expertise and vision that can open every door.

İSTANBUL

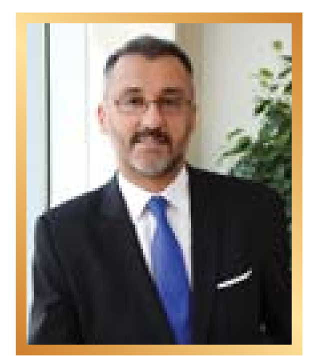
SENIOR MANAGEMENT

Özgür ALTUNTAŞ
Member of the Board of Directors and General Manager

Altuntaş graduated in Managerial Engineering at Istanbul Technical University. Joining the Istanbul Bankers Trust in 1993, he worked for Garanti Bank in Amsterdam, AMEX Bank in Bucharest and Credit Suisse in London. He then 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 the Royal Bank of Scotland as Senior Assistant General Manager for two years until June 2013. On September 16, 2013, he became a Board Member and General Manager of Nurol Yatırım Bankası A.Ş.

Zafer Babür HAKARAR
Treasury and Financial Institutions, Senior Assistant General Manager

Hakarar graduated from Mechanical Engineering at 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 Finance and Business Development Director. Z. Babür Hakarar has been acting as Senior Assistant General Manager responsible for the Treasury at Nurol Yatırım Bankası A.Ş. since September 2013.



Dr. Murat ÇİMEN
Loans, Senior Assistant General Manager

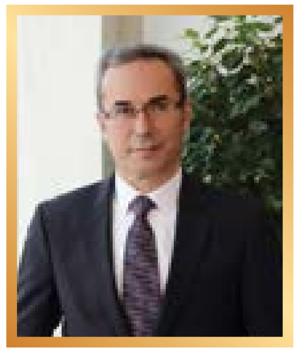
Çimen is a graduate of Civil Engineering from Istanbul Technical University. He obtained his MA and PhD degrees from Boğaziçi University. In 1996, he started working for Interbank. Later, in 1999, he joined Nurol Yatırım Bankası, holding various titles, including Senior Specialist at the Project Finance and Leasing Department, Head of Investment Banking, and Assistant General Manager Responsible for Investment Banking. He has been acting as Senior Assistant General Manager Responsible for Loans since 2017.

BODRUM

SENIOR MANAGEMENT

Ahmet Murat KAVURGA
Operations and Information Management, Assistant General Manager

Kavurga is a graduate of Foreign Languages from Marmara University. Kavurga started working for Adabank in 1986 as a Senior Officer. He then joined Chase Manhattan Bank Turkey, before moving onto Garanti Bank Romania, and later Credit Europe Bank Moscow. Since February 2014, he has been acting as an Assistant General Manager responsible for Operations and Information Management in Nurolbank.

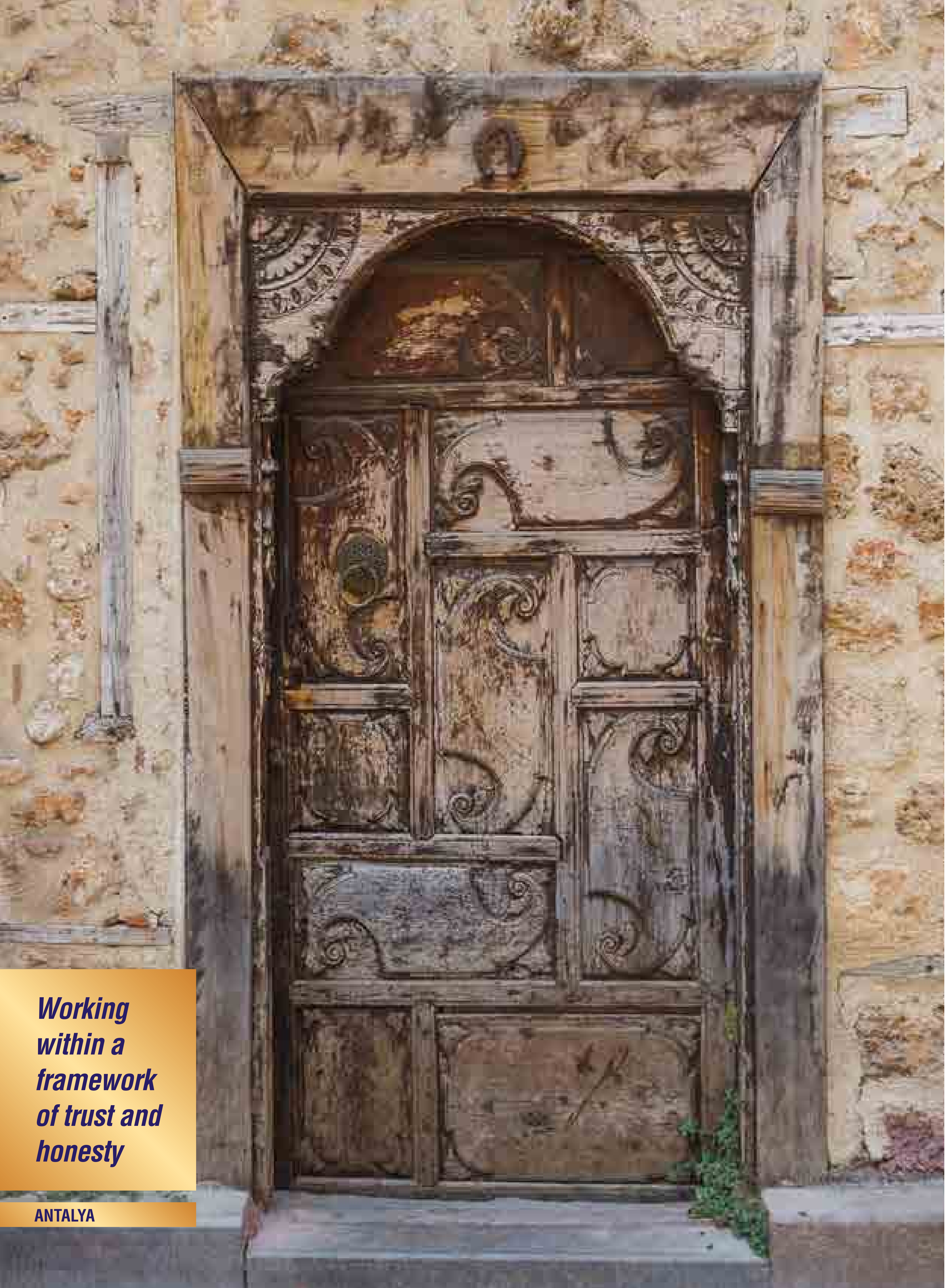


Semih Subutay NEZİR
Audit and Compliance Management, Assistant General Manager

Nezir is a graduate of Economics from 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. He joined Nurol Yatırım Bankası in 2001 and was appointed as Assistant General Manager responsible for Audit and Compliance Management in March 2014.

Yeliz BİLGİN
Investor Relations, Assistant General Manager

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



COMMITTEES 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 the BRSA's "Regulation on Corporate Governance Principles of Banks" published in Issue 26333 of the Official Gazette dated 01.11.2006. The Committee operates under the Board of Directors. It convened twice in 2017 to monitor and improve the bank's compliance with corporate governance principles, and to submit proposals to the Board of Directors.

Title	Name Surname	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 Board Resolution No. 449 dated 13.12.2011, in accordance with the BRSA's "Regulation on Corporate Governance Principles of Banks" published in Issue 26333 of the Official Gazette dated 01.11.2006, the relevant provision of which was as follows: "A Pricing Committee must be established which consists of at least two members to monitor and audit pricing practices on behalf of the Board of Directors". The Pricing Committee convened once in 2017 in order to submit pricing suggestions to the Board of Directors.

Title	Name Surname	Main Title
Chairman	Mehmet Oğuz ÇARMIKLI	Vice-Chairman of the Board of Directors
Member	Ahmet Kerim KEMAHLI	Member 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 Issue 29057 of the Official Gazette dated 11.07.2014. The Committee also aims to ensure that the audit and monitoring activities of the Board are duly performed. The Audit Committee convened 15 times in 2017 in order to submit proposals to the Board of Directors.

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

Discipline and Personnel Committee

The Committee was established to observe and enforce the mandatory provisions of Labor Law No. 4857 and the relevant legislation, including those regarding the responsibilities of the bank's 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 the Labor Law, other legislation, the bank's regulations and disciplinary rules. Chaired by the General Manager, the Committee convenes with the participation of the relevant executives when necessary and makes resolutions on relevant agenda items.

Title	Name Surname	Main Title
Chairman	Özgür ALTUNTAŞ	Member of the Board of Directors - General Manager
Member	Dr. Murat ÇİMEN	Loans, Senior Assistant General Manager
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 Management of Information Systems in Banks" published in Issue 26643 of the Official Gazette dated 14.09.2007. It informs the Board on strategic coherence in order to enable decisions related to the management and administration of IT-related legislation/provisions to be made, strategic actions to be determined, and IT governance goals to be resolved. It was established by the Board Resolution dated 17.06.2008 no. 336 to incorporate IT related matters within the agenda of corporate governance at the level of the Board. It convened three times in 2017.

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

Assets and Liabilities Committee

The Assets and 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 46 times in 2017.

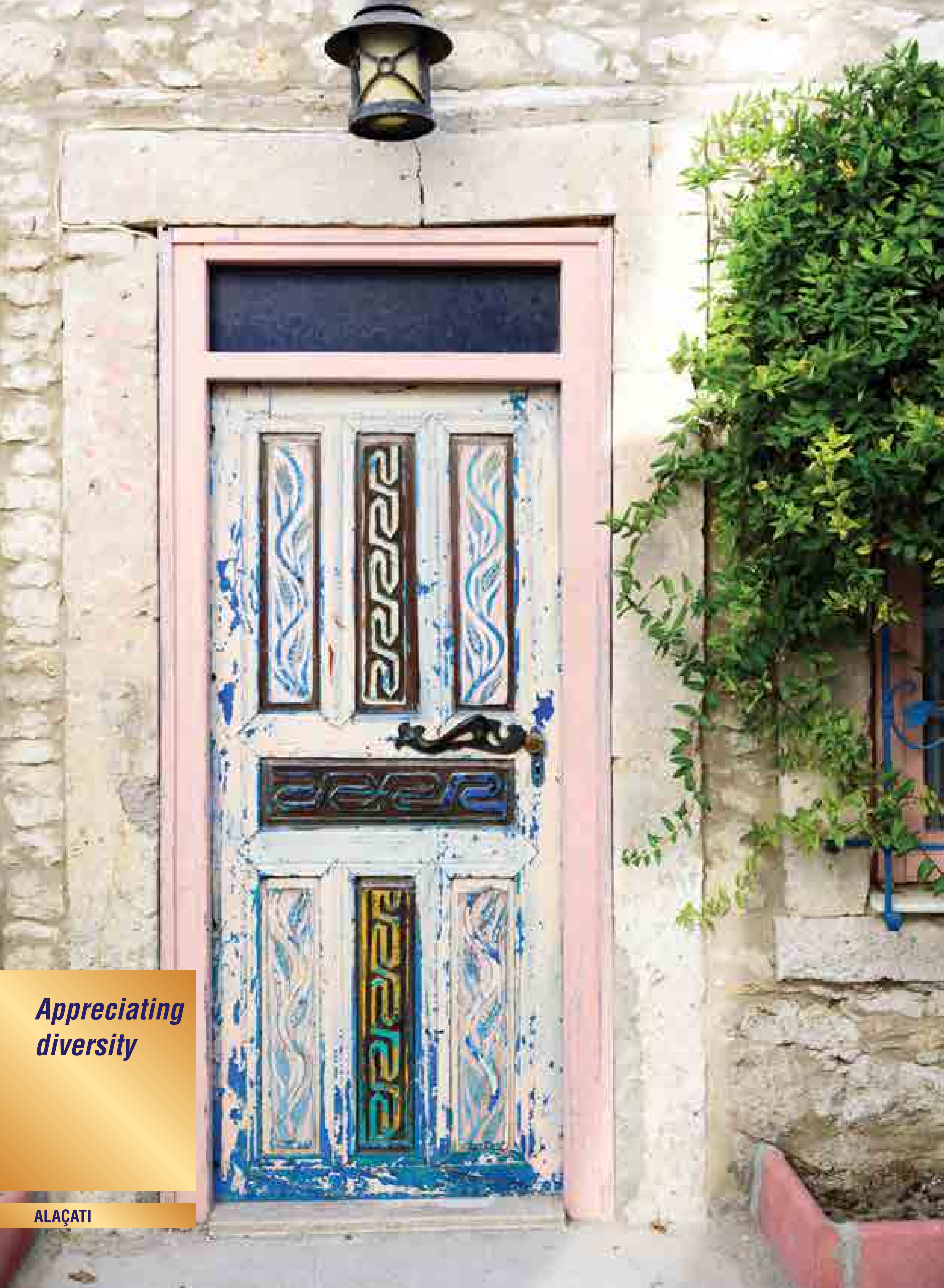
Title	Name Surname	Main Title
Chairman	Özgür ALTUNTAŞ	Member of the Board of Directors - General Manager
Member	Zafer Babür HAKARAR	Treasury and Financial Institutions, Senior Assistant General Manager
Member	Recep GÜL	Financial Control Group Manager
Member	Melike BAYRAKTAR	Financial Control Manager

Credit Committee

The Committee operates under the Board of Directors. Established pursuant to the BRSA's "Regulation on the 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 26 times in 2017.

Title	Name Surname	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



Appreciating diversity

ALAÇATI

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 its 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, and time-bound targets.

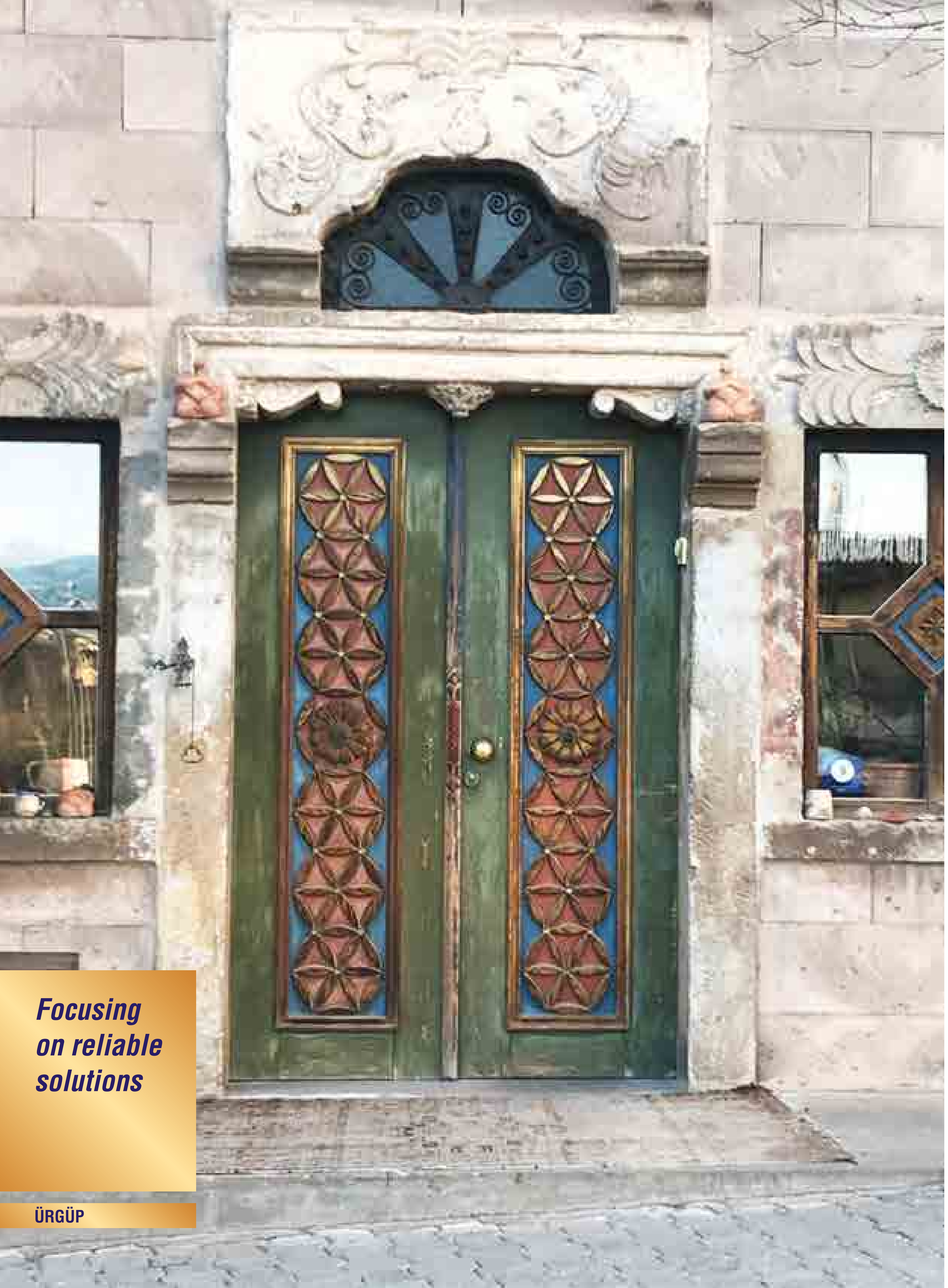
Employee Development

Our HR policy aims to ensure that all our employees can swiftly adapt to the bank's development, gain 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 the utmost 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 2017, our employees attended training sessions and seminars in the necessary fields within the frame work 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 Borsa Istanbul A.Ş.

As of 2017 year-end, we have 47 employees, 97% of whom are university graduates, with an average age of 40. The bank's average seniority is 6.26 years; however our employees' average experience in the industry is 10 years. Forty-three percent of our employees are female, and the rate of female executives is 40%.



Focusing on reliable solutions

ÜRGÜP

CORPORATE GOVERNANCE, ETHICS REQUIREMENTS AND PRACTICES

Compliance with corporate governance and ethics requirements and commitment to transparency and ethical values have always been at the forefront of our bank's priorities.

Social Responsibility

Prepared in line with our Social Responsibility Principles, our Regulation on Corporate Governance and Ethics Requirements continually guides us in our banking activities. In all our activities, we take into account the benefits to society.

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

As set forth in the bank's Guideline of Compliance Policy and Compliance Risks, the services offered by our bank do not constitute any risks to 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 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 being approved by our bank's Board of Directors. In this regard;

From a Shareholder Point of View:

- We inform our shareholders of any relevant updates pursuant to the principles of public disclosure.
- We ensure that our bank helps shareholders, depositors, market participants and the public to access 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 running of the bank.
- We make relevant information on the bank available to the public in a timely, accurate, thorough, clear, impartial, easily-accessible and balanced manner to help the relevant persons and organizations gain a proper understanding of our bank.
- We conduct public disclosure activities, as part of which we consolidate and publish, based on the 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 the year-end and in March, June and September of every year.

From a Customer Point of View:

- In order to improve our corporation and services, we have developed systems and processes that allow customers to share their requests, recommendations, or complaints with us.

- We use our website and dedicated phone line for such recommendations and complaints. The Customer Complaint Line and Arbitration Committee actively work to receive and handle customer complaints.

From an Employee Point of View:

- We attach importance to ensuring employees develop themselves, are kept informed, and are engaged with the management, and design our processes in this way.

- Internal notifications are coordinated and governed through the internal notification portal, employee meetings, employee satisfaction and feedback surveys, and performance planning and assessment processes organized by our HR Department.

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 Banks' Corporate Governance and Ethics Requirements and which entered into force upon the approval of our Board of Directors, we observe the principles of public disclosure and transparency stipulated as follows with regards to the Principles and Procedures of Banks' Corporate Governance:

- Equality; Equal treatment of shareholders and stakeholders; prevention of possible conflicts of interests in all activities of the bank's management.

- Transparency; Prompt, accurate, thorough, clear, interpretable, low-cost and easily accessible disclosure of financial and non-financial information about the bank, other than trade secrets and information which is not yet publicly available.

CORPORATE GOVERNANCE, ETHICS REQUIREMENTS AND PRACTICES

- Responsibility; Ensuring and auditing whether or not the activities carried out by bank's management on behalf of the bank comply with the laws, the Articles of Association and the bank's internal regulations.

- Accountability; We fully observe the Board Members' obligation to be primarily accountable for the bank's legal entity and thus, shareholders, ensuring transparency in corporate governance.

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

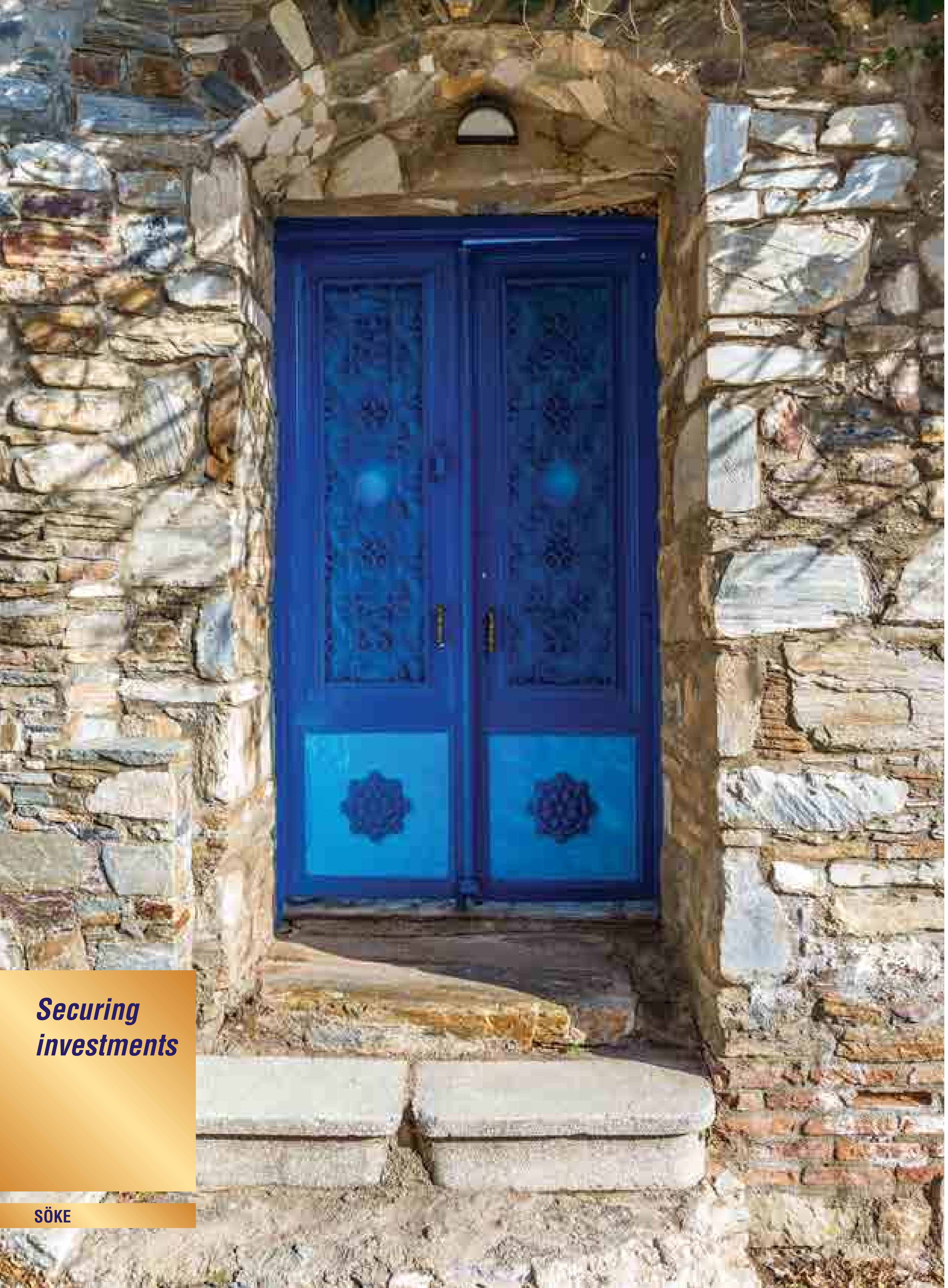
- Corporate (About Us, Our Vision and Our Mission, Our Strategy, Chairman's Message, General Manager's Message, Corporate Governance)

- Banking Services (Investment Banking, Corporate Banking)

- Investor Relations (Annual Reports, Audit Reports, General Assembly Minutes, 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, Careers, Announcements, Job Application Forms)

- Contact Us (Customer Complaint Line, Addresses)



Securing investments

SÖKE

INFORMATION ON TRANSACTIONS WITH THE BANK'S RISK GROUP

Our bank offers commercial banking and investment banking services to Nurol Group companies via its branches and departments at its 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.
- Sales and purchase of money market instruments.
- FX transactions, including effective transactions.
- Sales and purchase of capital market instruments.
- Repurchase and resale transactions 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 or by public and other private institutions for tender purposes, project finance, extension of long-term investment loans or their syndication, extension of 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 November 11, 2011 by the 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 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 services

Audit Committee Report

Dear business partners,

In accordance with the relevant legislation, in periodical meetings the Audit Committee assesses the activities carried out by internal systems (Internal Audit, Internal Control and Risk Management), makes 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 15 times in 2017, and made various resolutions regarding the practices of internal systems. An Audit Committee Annual Report, which covered the first six months of 2017, 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 announces its approval for implementation. In compliance with the drill scenario, emergency drills are implemented with the extensive participation of all the bank's 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 the bank's assets are protected, its activities are compliant with the relevant legislation, the bank's internal legislation and regulations, internal policies, strategies and targets, and that the accounting and bookkeeping activities and 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 with examining, monitoring and assessing the compliance, sufficiency and effectiveness of the controls, as well as reporting the findings to the 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 the 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 the corresponding operational risk matrix codes.

As part of the business plan for internal controls in 2017, three firms providing banking and COBIT process services and two firms 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 and other transactions are analyzed via sampling. As part of onsite controls, the compliance of transactions with internal and legal regulations is monitored. Findings, opinions and recommendations are primarily notified to the relevant personnel responsible for the relevant activities, depending on the risk level, importance, and whether or not a preventive/corrective measure has been taken. Following the necessary joint assessments, observations are reported to the senior management and Audit Committee.

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 the internal strategies, policies, principles and targets of the bank. For the internal audit system to fulfill its intended purpose and achieve 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 the relevant laws and other legislation and the 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, the sufficiency of the internal regulation, the sufficiency, accuracy and effectiveness of the bank's activities, and whether or not the reports, book entries and financial reports submitted to the BRSA and senior management are accurate, reliable and compliant with the time restrictions, along with the structure of internal processes.

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 the Internal Audit Department through quarterly activity reports which are submitted by the Audit Committee.

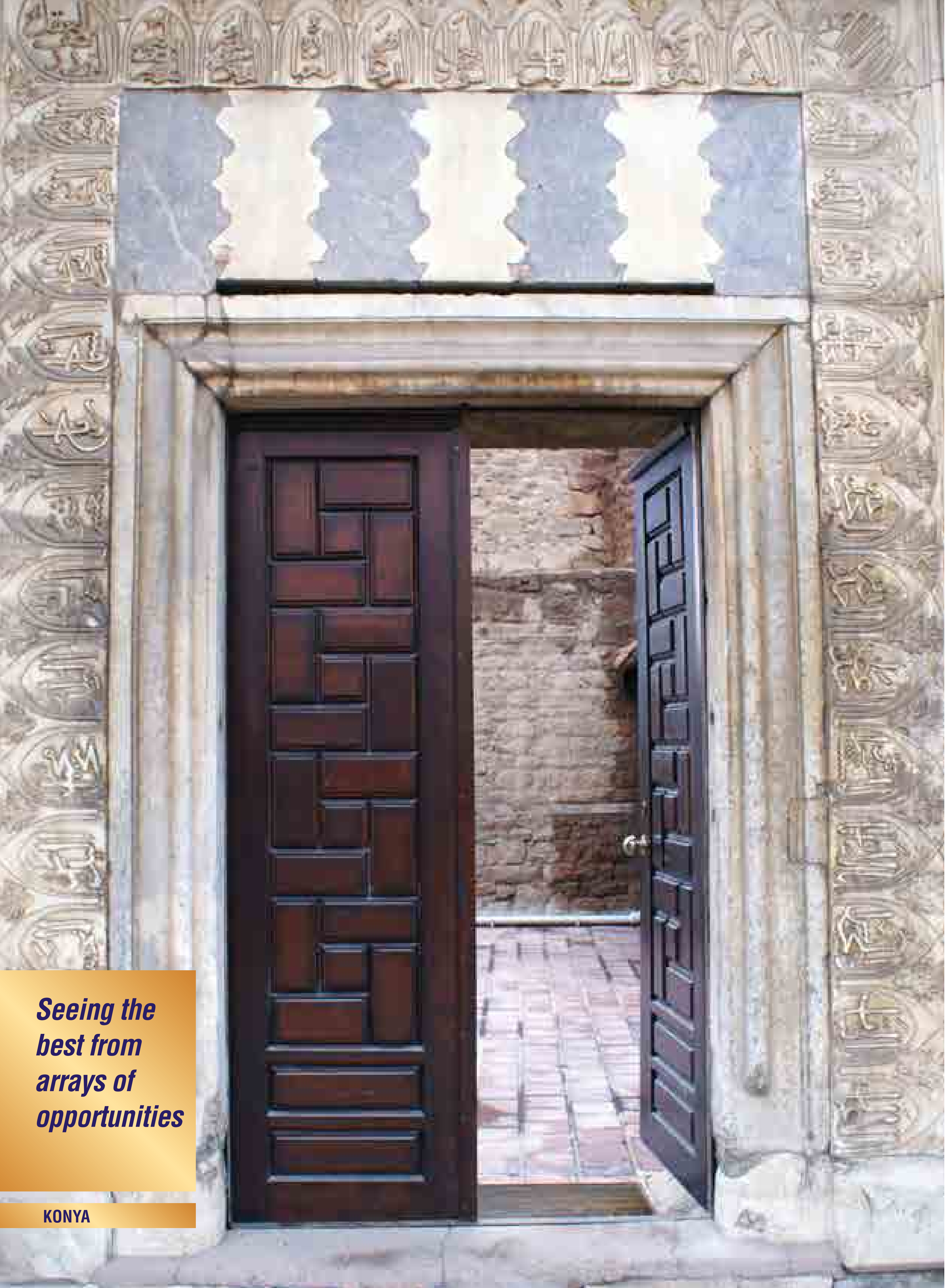
Risk Management Department

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.

As part of risk management, analyses, simulations, scenarios, stress tests and the Internal Capital Adequacy Assessment Process (ICAAP) Report, 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 the risk management program, the Risk Management Department conducts risk analysis assessments in terms of the technical competency and potential risks of the organizations from which support services are procured.



INFORMATION ON RISK MANAGEMENT POLICIES BY TYPE 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 is 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, and 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 the 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. The 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 risks and makes the decision to act in necessary situations.

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 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 (value at risk) 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. The 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 on-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 ACCORDING TO TYPE OF RISKS

Liquidity Risk

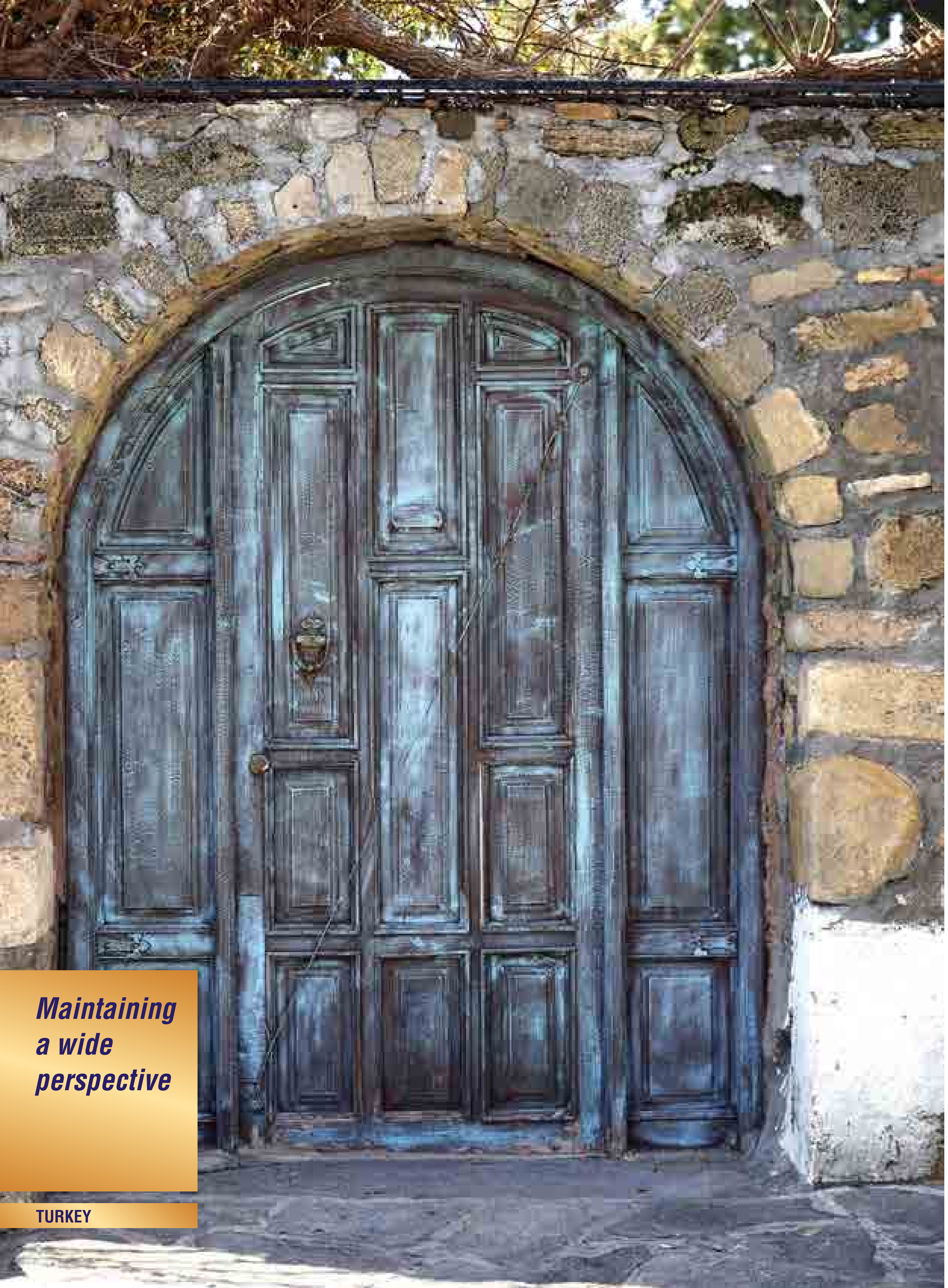
Liquidity risk is managed by the Treasury and Financial Institutions Department pursuant to the risk management policies approved by the Board of Directors in order to take the necessary measures in a timely and accurate manner and prevent liquidity bottlenecks that may arise from market conditions and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

To ensure effective management of liquidity risk, bank and market data is regularly monitored and the 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 the liquidity risk of the bank, 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 a secondary structural block as country and transfer risks, strategic risks, reputational 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.



ORDINARY GENERAL ASSEMBLY AGENDA

Agenda of the 2017 Ordinary General Assembly

1- Opening remarks and election of the Chair to the Meeting.

2- Presentation and discussion of the Annual Report of the Board of Directors for 2017.

3- Presentation of the independent audit agency's Report.

4- Presentation, discussion and approval of the financial statements for 2017.

5- Release of each member of the Board of Directors from liability for the affairs of 2017.

6- Submission of assignments to membership and chairmanship of the Board of Directors for the approval of the General Assembly.

7- Discussion and resolution regarding the Members of the Board of Directors' remunerations and attendance fees.

8- Discussion and resolution regarding the retainment of 2017's profits and their addition to the company capital.

9- Increase of company capital from 125,000,000.00 TL to 160,000,000.00 TL with the addition of the 2017 profit to the capital.

10- Amendment of Article 7 of the Articles of Incorporation regarding capital.

11- Discussion and resolution on whether or not to make premium payments to employees.

12- Discharge of the Independent Auditor (audit agency) for the activity period of 2017.

13- Selection of an independent audit company for the 2018 operating year.

14- Authorization of the Members of the Board of Directors as per the provisions of Articles 395 and 396 of the Turkish Commercial Code.

15- Wishes, opinions and closing remarks.

DATÇA

INDEPENDENT AUDIT REPORT OF NUROL YATIRIM BANKASI ANONİM ŞİRKETİ ISSUED AS OF DECEMBER 31, 2017, CONSOLIDATED FINANCIAL STATEMENTS and EXPLANATORY NOTES ON FINANCIAL STATEMENTS

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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 Consolidated Financial Statements

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

Opinion

We have audited the consolidated financial statements of Nurol Yatırım Bankası A.Ş. and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group 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 consolidated 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 consolidated 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 consolidated financial statements.

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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, accordingly determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. 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 10 to the consolidated 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 confirm the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them.

Responsibilities of the Board of Directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

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 consolidated 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.

The engagement partner who supervised and concluded this independent auditor's report is Yaşar Bivas.

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

Yaşar Bivas
Partner, SMMM

Istanbul, Turkey
February 16, 2018

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NUROL YATIRIM BANKASI ANONİM ŞİRKETİ STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2017

(Currency - In thousands of Turkish Lira)

	Note	Audited 31 December 2017	Audited 31 December 2016
Assets			
Cash and cash equivalents	6	26,682	136,314
Reserve deposits at Central Bank	7	312,292	84,066
Derivative financial assets	8	1,665	2,593
Available for sale investments	9	136,519	45,514
Loans and advances to customers	10	1,060,453	777,401
Property and equipment	11	2,322	2,478
Investment property	13	4,440	19,920
Intangible assets	12	1,375	1,387
Deferred tax assets	20	3,256	3,082
Other assets	14	145,156	96,796
Total assets		**1,694,160**	**1,169,551**
Liabilities			
Funds borrowed	15	462,441	175,961
Debt securities issued	17	638,849	525,853
Other liabilities	18	279,108	224,100
Derivative financial liabilities	22	18,831	12,703
Subordinated debts	16	57,267	53,364
Provisions	19	2,754	2,712
Current tax liability		5,946	6,640
Deferred tax liability	20	-	-
Total liabilities		**1,465,196**	**1,001,233**
Equity			
Share capital	23	125,000	45,000
Reserves	23	35,448	27,446
Retained earnings		68,476	95,772
Total equity		**228,964**	**168,218**
Total liabilities and equity		**1,694,160**	**1,169,551**

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 2017

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2017	Audited 1 January 31 December 2016
Interest income	24	203,006	139,312
Interest expense	24	(99,368)	(56,253)
Net interest income		**103,638**	**83,059**
Fee and commission income	25	25,835	19,732
Fee and commission expense	25	(16,026)	(5,561)
Net fee and commission income		**9,809**	**14,171**
Net trading income / (loss)	26	(13,123)	(28,137)
Other operating income	27	8,871	8,150
		(4,852)	**(19,985)**
Operating income		**108,595**	**77,245**
Net impairment/recoveries on financial assets	10	(5,321)	(2,542)
Other provision expenses	28	(756)	(232)
Personnel expenses	29	(14,648)	(12,231)
Depreciation and amortization		(1,208)	(752)
Administrative expenses	30	(18,687)	(11,638)
Profit before income tax		**68,005**	**49,850**
Income tax expense	20	(13,714)	(8,767)
Profit from continued operations		**54,291**	**41,083**
Profit for the period		**54,291**	**41,083**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets			
Gain / (Loss) arising during the period	23	6,619	(3,187)
Income tax relating to components of other comprehensive income	20	(164)	1,386
Other comprehensive income (loss) for the period, net of income tax		**6,455**	**(1,801)**
Total comprehensive income for the period		**60,746**	**39,282**

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 2017

(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 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		-	-	-	-	-
Total comprehensive income for the period		-	**(1,801)**	-	**41,083**	**(1,801)**
Balance at 31 December 2016		**45,000**	**(1,801)**	-	**95,772**	**168,218**
Balances at 1 January 2017		**45,000**	**24,533**	**2,913**	**95,772**	**168,218**
Capital increase		**80,000**	-	-	(80,000)	-
Transfer to reserves		-	-	1,587	(1,587)	-
Total comprehensive income for the period						
- Profit for the period		-	-	-	54,291	54,291
- Other comprehensive income for the period, net of tax		-	6,455	-	-	6,455
Total comprehensive income for the period		-	**6,455**	-	**54,291**	**60,746**
Balance at 31 December 2017		**125,000**	**30,988**	**4,500**	**68,476**	**228,964**

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 2017

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2017(*)	Audited 1 January 31 December 2016(*)
Cash flows from operating activities			
Net profit for the period		54,291	41,083
Adjustments:			
Depreciation and amortisation	11,12	1,208	752
Current tax expense	20	14,052	14,582
Deferred tax (income)/expense	20	(388)	(5,815)
Provision for loan losses	10	5,321	2,542
Other provisions		756	232
Other accruals		8,173	(3,320)
Foreign exchange loss / (gain)		(7,612)	(6,322)
Fair value gain on investment property		-	(6,964)
Fair value gain on other assets		(6,931)	-
		68,920	**36,770**
Changes in operating assets and liabilities			
Change in derivative financial assets		928	20,456
Change in loans and advances to customers		(286,824)	(348,358)
Change in reserve deposits		(227,697)	(37,593)
Change in other assets		(26,001)	(95,170)
Change in other liabilities		46,785	182,157
Change in derivative financial liabilities		6,128	12,246
Change in borrowings		287,471	14,411
Taxes paid		(16,892)	(5,378)
Net cash provided by / (used in) operating activities		**(216,102)**	**(220,459)**
Cash flows from investing activities			
Purchase of available for sale investments		(1,258,272)	(175,409)
Sale of available for sale investments		1,175,029	161,768
Purchase of property and equipment		(64)	(1,340)
Purchase of intangible assets		(388)	(521)
Proceeds from sale of investments property		10,100	-
Net cash (used in) / provided by investing activities		**(73,595)**	**(15,502)**
Proceeds from debt securities issued		2,320,777	746,690
Repayment from debt securities issued		(2,217,244)	(603,237)
Proceeds from subordinated debts		-	53,364
Net cash provided by /(used in) financing activities		**103,533**	**196,817**
Effect of foreign exchange rate change on cash and cash equivalents		**7,612**	**6,322**
Net increase in cash and cash equivalents		**(109,631)**	**(32,822)**
Cash and cash equivalents at 1 January	6	136,314	169,136
Cash and cash equivalents at 31 December	**6**	**26,682**	**136,314**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 194,862 (31 December 2016: 131,350) and interest paid is amounting to TL 83,593 (31 December 2016: TL 51,611).

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

(Currency - In thousands of Turkish Lira)

İSTANBUL

I. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the "Parent 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.

Nurol Varlık Kiralama A.Ş. is established in 2017 to operate in asset leasing sector. Nurol Varlık Kiralama A.Ş. has been registered in trade register as of June 14, 2017 and published in Turkey Trade Registry Gazette numbered 9351 dated 20 June 2017. Nurol Varlık Kiralama A.Ş.'s paid in capital is amounting to TL 50 as of December 31, 2017.

Nature of Activities of the Group

The Group activities include investment banking and corporate services such as asset and financial leasing, lending and trade finance.

Nurolbank operates as an investment bank and according to the current legislation for investment banks, the Parent Bank is not authorised to receive deposits from customers. The Parent Bank's head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

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

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	97,697	78.16
Nurol İnşaat ve Tic. A.Ş.	19,950	15.96
Other	7,353	5.88

The Parent Bank's paid in capital has been increased by TL 80,000 provided from first dividend share in the current period (January 1- December 31, 2016: None).

The shareholder having direct or indirect control over the shares of the Parent Bank is Nurol Group. Nurol 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 Parent 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 consolidated financial statements as at 31 December 2017 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 2017. The effects of these standards and interpretations on the Group'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 2017 are as follows:

ii) 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.

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. The amendments did not have an impact on the financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- 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.

The amendments did not have an impact on the financial position or performance of the Group.

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 consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

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

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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. The amendment will not have an impact on the financial position or performance of the Group.

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 amendment will not have an impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. 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. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group has performed an impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The impact of standard on all three aspects of IFRS 9 is as follows:

Classification and Measurement of Financial Assets:

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in OCI, and, therefore, the application of IFRS 9 will not have a significant impact.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Impairment:

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will increase by TL 17-20 million (Full TL) with corresponding related increase in the deferred tax assets of TL 3,5 – 4 million (Full TL).

Hedge accounting:

As the Group does not have any hedge instruments, IFRS 9 will not have an impact on Group's financial statements.

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 amendment will not have an impact on the financial position or performance of the Group.

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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
e. 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 amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the the Group and will not have an impact on the financial position or performance of the Group.

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

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 Group and will not have an impact on the financial position or performance of the Group.

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

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.

- 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 amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in “IAS 12 Income Taxes” when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
(a) whether an entity considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application.

The Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The standard is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures. The amendments clarify that a group applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a group accounts for using the equity method. A group applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

The Group has performed a high-level impact assessment of Amendments. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity. The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

Applying IFRS 9, a group would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

The Group has performed a high-level impact assessment of Amendments. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

- IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

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

III. Consolidation

3.1 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Bank and its subsidiary, which is the entity controlled by the Parent Bank. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When necessary, adjustments are made to the consolidated financial statements of subsidiary to bring their accounting policies into line with those of the Group. Nurol Yatırım Bankası A.Ş. has 100% ownership of Nurol Varlık Kiralama A.Ş.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

IV. Significant accounting policies

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Parent Bank maintains its book of account and prepares their statutory consolidated 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 accompanying consolidated financial statements are derived from statutory consolidated financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. The subsidiary maintains its books of accounts based on statutory rules and regulations applicable in its jurisdiction. The accompanying consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

IV. Significant accounting policies (continued)

The consolidated financial statements were authorised for issue by the Group's management on 16 February 2018. The Group's General Assembly and the other reporting bodies have the power to amend the consolidated financial statements after their issue.

4.2 Basis of measurement

The consolidated 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

4.3 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 Group are as follows:

	USD / TL (full)	EUR / TL (full)
31 December 20l7	3.7719	4.5155
31 December 2016	3.5192	3.7099

4.4 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 Group 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.

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NOTES THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2017
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IV. Significant accounting policies (continued)

4.5 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.

4.6 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.

4.7 Dividends

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

4.8 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.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated 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.

IV. Significant accounting policies (continued)

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. Since the applicable tax rate has been changed to 22% for the 3 years beginning from 1 January 2018, 22% tax rate is used in the deferred tax calculation of 31 December 2017 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group 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 Group 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.

4.9 Financial assets and liabilities

4.9.1 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.

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.

IV. Significant accounting policies (continued)

Available for sale financial assets

Quoted equity investments and quoted certain debt securities held by the Group 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 Group 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.

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 Group does not intend to sell immediately or in the near term.

When the Group 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 Group 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 Group's consolidated 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.

IV. Significant accounting policies (continued)

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.

Repossessed assets

As part of its treatment of defaulted loans and guarantees, the Group 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

IV. Significant accounting policies (continued)

4.9.2 Financial Liabilities

Financial liabilities and equity instruments issued by the Group 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 Group 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.

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 Group is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Group'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 Group derecognizes financial liabilities when, and only when, the Group'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.

IV. Significant accounting policies (continued)

4.10 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.

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.

4.11 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 Group, 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.

4.12 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.

IV. Significant accounting policies (continued)

4.13 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 Group'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 Group 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.

4.14 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 Group as lessee

Assets held under finance leases are initially recognized as assets of the Group 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.

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 Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group'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 Group'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.

IV. Significant accounting policies (continued)

4.15 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group 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.

4.16 Employee benefıts

Termination and retirement benefıts

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

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

Profıt-sharing and bonus plans

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

4.17 Fiduciary assets

Assets held by the Group 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 Group.

4.18 Use of estimates and judgments

The preparation of the consolidated 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.

IV. Significant accounting policies (continued)

4.19 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 fınancial 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 fınancial 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.

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 fınancial 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 fınancial instruments" below.

4.20 Functional and presentation currency

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

(Currency - In thousands of Turkish Lira)

V. 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 Group operates in investment, retail and corporate banking and asset leasing. Accordingly, the Group 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 Group 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 2017	Corporate banking	Other(*)	Total operations of the Group
Operating income	97,915	10,680	108,595
Expenses	(40,590)	-	(40,590)
Profit before income tax	57,325	10,680	68,005
Income tax income/expense	-	-	(13,714)
Profit from continued operations	57,325	10,680	54,291
Profit for the period	**43,611**	**10,680**	**54,291**
Segment assets	1 ,694,083	77	1,694,160
Non-distributed Asset	-	-	-
Total assets	**1,694,083**	**77**	**1,694,160**
Segment liabilities	1.465,196	-	1,465,196
Shareholders' equity	-	228,964	228.964
Total liabilities	**1,465,196**	**228,964**	**1,694,160**

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

V. Segment reporting (continued)

31 December 2016	Corporate banking	Other(*)	Total operations of the Group
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	**31,635**	**9,398**	41,083
Profit for the period	31,635	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**

Geographical concentration

	Assets	Liabilities	Non-cash loans	Capital expenditures	Net profit / (loss)
31 December 2017					
Domestic	1,503,181	1,477,895	606,070	2.322	54,291
European Union countries	34,015	131,929	367	-	-
OECD countries	6,933	37,797	-	-	-
USA, Canada	151	-	-	-	-
Other countries	149,880	46.539	-	-	-
Total	**1,694,160**	**1,694,160**	**606,437**	**2,322**	**54,291**
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**

VI. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash and balances with central banks	3,452	314
- Cash on hand	99	95
- Balances with central banks	3,353	219
Due from banks and financial institutions	23,230	93,541
Placements at money markets	-	42,459
Cash and cash equivalents in the balance sheet	**26,682**	**136,314**

As at 31 December 2017 and 31 December 2016, the details of the balances with central banks and due from banks and fınancial institutions are as follows:

	31 December 2017			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	5	3,348	-	-
Due from banks and financial institutions	454	22,776	11.9%	1.2%
Placement at money markets	-	-	-	-
Total	**459**	**26,124**		

	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**		

(Currency - In thousands of Turkish Lira)

VII. Reserve deposits at Central Bank

	31 December 2017	31 December 2016
Turkish Lira	253,397	57,161
Foreign curreney	58,895	26,905
	312,292	**84,066**

As of December 31, 2017, 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, 2016 – 4% to 10.5%) and the compulsory rates for the foreign currency liabilities are within an interval from 4% to 24% depending on the maturity of deposits and other liabilities (December 31, 2016 – 4.5% to 24.5%).

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.

VIII. Financial assets at fair value through profit or loss

	31 December 2017	31 December 2016
Derivative financial assets-held for trading	1,665	2,593
Total FVTPL	**1,665**	**2,593**

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).

IX. Available for sale investments

	31 December 2017		31 December 2016	
	Amount	Effective interest rate	Amount	Effective interest rate
Available-for-sale investments at fair value				
Debt instruments (a)	98,897	13.38%	18,991	12.85%
Equity instruments – listed (b)	31,384		26,363	
Equity instruments – unlisted	6,238		160	
Total available-for-sale investments at fair value	**136,519**		**45,514**	

(a) Available for sale debt instruments include government bonds denominated in TL amounting to TL 813 (31 December 2016: TL 805), bank bonds amounting to TL 5,042 (31 December 2016: 2,044) and Eurobonds amounting to TL 86,039 (31 December 2016: 3,699) and the remaining portion amounting to TL 7,003 (31 December 2016: TL 12,443) consists of private sector bonds.

(b) The Group holds 15.97% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 31 December 2017 and the investment is accounted under available for sale investments, as the Group 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 29,167 Thousand is accounted under equity (31 December 2016: TL 24,146 Thousand).

X. Loans and advances to customers

	31 December 2017		
	Amount		
	TL	Foreign currency	Total
Finance lease receivables	-	-	-
Factoring receivables	-	-	-
Short-term loans	504,726	3,004	507,730
Medium and long-term loans	238,454	315,450	553,904
Total performing loans	**743,180**	**318,453**	**1,061,633**
Less: Portfolio provision	**7,943**	-	**7,943**
Non-performing loans	3,267	-	3,267
Less: Reserve for possible loan losses	(3,235)	-	(3,235)
Total non-performing loans (net)	**32**	-	**32**
Transferred assets (*)	**6,730**	**(3,235)**	**6,730**
Total loans, net	**741,999**	**318,454**	**1,060,453**

(*) 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 Parent Bank as the Parent Bank has retained substantially all the risks and rewards of ownership of the transferred asset. The Parent Bank reflects such loans at amortized cost net of impairment in the statement of financial position.

X. Loans and advances to customers (continued)

	31 December 2017		
	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)
Tolal 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 Parent Bank as the Parent Bank has retained substantially all the risks and rewards of ownership of the transferred asset. The Parent Bank reflects such loans at amortized cost net of impairment in the statement of financial position.

Movements in non-performing loans:

	31 December 2017	31 December 2016
Reserve at beginning of period	5,857	3,311
Provision for possible loan losses	5,339	2,668
Recoveries	(18)	(126)
Provision, net of recoveries	5,321	2,542
Disposal of non-performing loans	-	4
Reserve at end of period	**11,178**	**5,857**

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XI. Property and equipment

	Office equipment	Furniture and fixfures	Other fixed assets	Total
Cost				
Balance at 1 January 2017	2,996	380	1,309	4,635
Acquisitions	372	8	188	568
Disposals	-	-	-	-
Balance at 31 December 2017	**3,368**	**338**	**1,497**	**5,203**
Depreciation				
Balance at 1 January 2017	1,480	127	550	2,157
Depreciation charge for the period	439	53	232	724
Disposals	-	-	-	-
Balance af 31 December 2017	**1,919**	**180**	**782**	**2,881**
Carrying value as of 31 Decemher 2017	**1,449**	**158**	**715**	**2,322**

	Office equipment	Furniture and fixfures	Other fixed assets	Total
Cost				
Balance at 1 January 2016	1,666	319	1,309	3,294
Acquisitions	1,330	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 af 31 December 2016	**1,480**	**127**	**550**	**2,157**
Carrying value as of 31 Decemher 2016	**1,516**	**203**	**759**	**2,478**

As of 31 December 2017 tangible assets were insured to the extent to TL 2,322 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

(Currency - In thousands of Turkish Lira)

XII. Intangible assets

	Software	Total
Cost		
Balance at 1 January 2017	4,832	4,832
Additions	472	472
Balance at 31 December 2017	**5,304**	**5,304**
Amortization and impairment		
Balance at 1 January 2017	3,445	3,445
Amortization change for the period	484	484
Balance at 31 December 2017	**3,929**	**3,929**
Carrying valus as of 31 December 2017	**1,375**	**1,375**

	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 change for the period	288	288
Balance at 31 December 2016	**3,445**	**3,445**
Carrying valus as of 31 December 2016	**1,387**	**1,387**

XIII. Investment property

As of 31 December 2017, the Group has investment property amounting to TL 4,440 (31 December 2016: 19,920). The Group accounts its investment property under fair value model.

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XIV. Other Assets

The Group concluded a "Pre-emption agreement" over the real estate property, for the twelve months period with the value of 24.4 million USD and for the eighteen months period with the value of 26.2 million USD. As of 31 December 2017 the first twelve months of agreement has expired and based on the agreement the Group has recognized 26.2 million USD in other assets.

The Group concluded a "Right to repurchase agreement" over the real estate property with the value of 8.5 million USD.

XV. Funds borrowed

	31 December 2017			31 December 2016		
	Amount			Amount		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Funds borrowed	69,506	332,915	402,421	11,531	148,602	160,133
Obligations under repurchase agreements	1,018	59,002	60,020	15,828	-	15,828
	70,524	**391,917**	**462,441**	**27,359**	**148,602**	**175,961**

The effective interest rate for funds borrowed denominated in USD is 4.51% (31 December 2016 –0.56%), in EUR is 2.69% (31 December 2016 – 1.02%) and in TL is 12.34% (31 December 2016 – 9.72%).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 31 December 2017 (31 December 2016 – None).

XVI. Subordinated debts

	31 December 2017			31 December 2016		
	Amount			Amount		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds (*)	-	57,267	57,267	-	53,364	53,364
	-	**57,267**	**57,267**	-	**53,364**	**53,364**

(*) The Parent Bank has made eurobond issue at a nominal value of USD 10,000,000 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 USD 5,000,000 with an interest rate of 6,65%, 10 years maturity, floating rate and quarterly interest payment on December 27, 2016. (31 December 2016: - USD 15,000,000)

XVII. Debt securities issued

	31 December 2017			31 December 2016		
	Amount			Amount		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds	559,703	-	559,703	431,659	-	431,659
Bills	79,146	-	79,146	94,194	-	94,194
	638,849	-	**638,849**	**525,853**	-	**525,853**

As of December 31, 2017, the list of the issued bonds by the Parent Bank are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BOND	21.07.2017	12.01.2018	175	74,850,000	13.95%
BOND	07.08.2017	26.01.2018	172	60,000,000	14.00%
BOND	24.08.2017	16.02.2018	176	52,300,000	14.15%
BOND	20.09.2017	14.03.2018	175	50,000,000	14.00%
BOND	11.10.2017	07.02.2018	119	97,500,000	14.00%
BILL	18.10.2017	19.10.2018	366	29,150,000	14.19%
BOND	09.11.2017	08.03.2018	119	163,000,000	14.10%
BOND	24.11.2017	04.04.2018	131	100,000,000	14.25%
BOND	12.12.2017	13.04.2018	122	50,000,000	14.75%
BOND	28.12.2017	03.05.2018	126	50,000,000	15.00%

XVIII. Other liabilities

	31 December 2017	31 December 2016
Cash collaterals (*)	265,129	210,109
Taxes and funds payable	3,831	2,381
Others	10,148	11,610
	279,108	**224,100**

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

XIX. Provisions

	31 December 2017	31 December 2016
Provision for non-cash loans	908	906
Employee termination benefits	857	693
Unused vacation accrual	863	660
Provision for lawsuits	126	407
Bonus accrual	-	-
Other	-	46
	2,754	**2,712**

The movement in vacation pay liability is as follows:

	2017	2016
At 1 January	660	460
Provision provided /(reversal)	203	200
At 31 December	**863**	**660**

The movement in provision for bonus accrual is as follows:

	2017	2016
At 1 January	-	1,000
Provision provided	1,000	1,000
Bonus paid	(1,000)	(2,000)
At 31 December	-	-

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

	2017	2016
At 1 January	693	685
Provision provided /(reversal)	164	8
At 31 December	**857**	**693**

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XIX. Provisions (continued)

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 (20 years for women) 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 4,732.48 for each period of service at 31 December 2017 (2016: TL 4,297.21).

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 consolidated financial statements as at 31 December 2017, 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 8.00% (31 December 2016: 7.00%) annual inflation rate and 12.00% (31 December 2016: 11.00%) discount rate.

XX. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. In Turkey, corporate tax rate is 20%. However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 20% corporate tax rate will be applied as 22% to the profits of the entities relating to 2018, 2019 and 2020 tax periods (for the entities with special accounting period will be applied to the tax periods commenced in related year). This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation and by addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation. Corporate tax is required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

The tax legislation provides for a temporary tax of 20% (will be applied as 22% for 2018, 2019 and 2020 tax periods) to be calculated and paid based on earnings generated for each quarter. The amounts thus 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 5 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.

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XX. Taxation (continued)

Income tax recognised in the income statement

The components of income tax expense as stated below:

	31 December 2017	31 December 2016
Current tax		
Current income tax	(14,052)	(14,582)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	338	5,815
Income tax expense reported in the income statement	**(13,714)**	**(8,767)**

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 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Profit before income tax	68,005	49,850
Income tax using the domestic corporate tax rate 20%	(13,601)	(9,970)
Other	(113)	1,203
Total income tax expense in the profit or loss	**(13,714)**	**(8,767)**

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

	31 December 2017	31 December 2016
Deferred tax assets / (liability), net at 1 January	3,082	(4,119)
Deferred tax recognised in the profit or loss	338	5,815
Deferred income tax recognised in other comprehensive income	(164)	1,386
Deferred tax assets/(liabilities), net at end of December	**3,256**	**3,082**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Liability for employee benefits	379	-	379	271	-	271
Valuation of available for sale financial assets	-	-	-	68	-	68
Economic life property and equipment	-	(171)	(171)	-	(136)	(136)
Derivatives	3,737	-	3,737	2,022	-	2,022
Prepaid commissions	-	-	-	-	-	-
Other	(689)	-	(689)	1,261	(404)	857
	3,427	**(171)**	**3,256**	**3,622**	**(540)**	**3,082**

XXI. Commitments and contingencies

In the normal course of business, the Group 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 Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group'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 Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As at 31 December 2017; commitments and contingencies comprised the following:

	31 December 2017	31 December 2016
Letters of guarantee	552,202	469,152
Bank acceptance	3,183	65,105
Letters of credit	51,052	8,519
Other commitments	273	249
Total	**606,710**	**543,025**

XXII. Derivative financial liabilities

As at 31 December 2017; derivative financial instruments are comprised the following. This table shows the fair values of derivative financial liabilities.

	31 December 2017		31 December 2016	
	Fair Value	Notional Amount in TL equivalent	Fair Value	Notional Amount in TL equivalent
Derivative financial liabilities – FVTPL	18,831	1,471,761	12,703	1,031,617
	18,831	**1,471,761**	**12,703**	**1,031,617**

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XXIII. Share capital and reserves

Share capital

As at 31 December 2017 and 31 December 2016, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Nurol Holding A.Ş.	97,697	78	35,171	78
Nurol İnşaat ve Tic. A.Ş.	19,950	16	7,182	16
Nurol Otelcilik ve Turizm İşletmeciliği A.Ş.	1,103	1	397	1
Others	6,250	5	2,250	5
Total	**125,000**		**45,000**	

As at 31 December 2017, the authorised share capital comprised of 125,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2016, the authorised share capital comprised of 45,000 ordinary shares having a par value of TL full 1,000). All issued shares are paid.

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 2017, the Group's legal reserves amounted to TL 4,500 (31 December 2016 – TL 2,913).

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 2016	**24,533**
At 1 January 2017	24,533
Change in fair value of available-for-sale financial assets (net of tax)	6,455
At 31 December 2017	**30,988**

XXIV. Net interest income

	31 December 2017	31 December 2016
Interest income		
Loans and advances to customers	185,456	134,659
Deposits with banks and other financial institutions	4,952	2,097
Held for trading and available for sale investments	12,089	2,089
Financial leases	-	26
Other	509	441
	203,006	**139,312**
Interest expense		
Funds borrowed	14,398	5,815
Debt securities issued	81,941	48,441
Interbank funds borrowed	2,211	1,997
Other	818	-
	99,368	**56,253**
Net interest income	**103,638**	**83,059**

XXV. Net fee and commission income

	31 December 2017	31 December 2016
Fee and commission income		
Non-cash loans	8,368	5,615
Other (*)	17,467	14,117
Total fee and commission income	**25,835**	**19,732**

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

	31 December 2017	31 December 2016
Fee and commission expense		
Non-cash loans	746	708
Other	15,280	4,853
Total fee and commission expense	**16,026**	**5,561**
Net fee and commission income	**9,809**	**14,171**

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XXVI. Net trading income/loss

	31 December 2017	31 December 2016
Gain / (loss) on foreign exchange rate fluctuations	14,108	(13,513)
Gain / (loss) from securities	1,546	1,145
Gain / (loss) on derivatives	(28,777)	(15,767)
Total	**(13,123)**	**(28,135)**

XXVII. Other operating income

	31 December 2017	31 December 2016
Gain on Increase in purchase right(*)	6,931	-
Reversal of provision	169	273
Fair value gain on investment properties	-	6,964
Other	1,171	913
	8,271	**8,150**

(*) The Parent Bank has gained income from the increase in the value of the purchase right over the real estate which is passed into the ownership of the Parent Bank because of the loan debt.

XXVIII. Other provision expenses

	1 January-31 December 2017	1 January-31 December 2016
Bonus expenses	-	-
Unused vacation expenses	203	25
Other expenses	28	207
Total	**231**	**232**

XXIX. Personnel expenses

	31 December 2017	31 December 2016
Wages and salaries	10,890	9,389
Compulsory social security obligations	1,002	815
Other benefits	2,725	2,027
Total	**14,618**	**12,231**

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XXX. Administrative expenses

	31 December 2017	31 December 2016
Nurol Holding re-charges	7,005	4,160
Audit and advisory expenses	2,446	1,148
Taxes and duties expenses	2,336	307
Rent expenses	1,489	1,228
Telecommunication expenses	1,131	661
Computer expenses	923	853
Notary expenses	688	629
Transportation expenses	388	133
Hosting expenses	290	207
Maintenance expenses	201	202
Advertising expenses	95	6
Other various administrative expenses	1,695	2,073
Total	**18,687**	**11,638**

XXXI. Financial risk management objectives and policies

a) Introduction and overview

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

- credit risk
- market risks
- liquidity risks
- operational risks

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

Risk management framework

The Group'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 Group 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 Group is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk, The Group'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 Group's general risk management strategy; the Group aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Group. 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 Group implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

XXXI. Financial risk management objectives and policies (continued)

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

The Group 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 Group 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 Group does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Group.

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 Group.

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 Group is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Group's procedures. The Group 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 Group's current rating system besides the follow up method determined in the related regulation.

	Individual	Corporate	Leasing	Total
31 December 2017				
Performing loans	77	1,053,237	-	1,053,304
Factoring loans	-	-	-	-
Loans under close monitoring	-	8,320	-	8,320
Non-performing loans	-	3,267	-	3,267
Gross	**77**	**1,064,824**	-	**1,064,901**
Transferred asset	-	6,730	-	6,730
Reserve for possible loan losses	-	(3,235)	-	(3,235)
Collective impairment	-	(7,943)	-	(7,943)
Total	**77**	**1,060,344**	-	**1,060,453**
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**

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XXXI. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk

		Due from banks		Loans and advances to customers	
	Notes	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Carrying amount	-	**23,230**	**136,000**	**1,060,453**	**777,401**
Individually impaired					
- Non-performing financial assets	-	-	-	3,267	28
Gross amount	-	-	-	**3,267**	**28**
Reserve for possible loan losses	10	-	-	(3,235)	(28)
Collective impairment	-	-	-	(7,943)	(5,829)
Carrying amount	-	-	-	**(7,943)**	**(5,829)**
Past due but not impaired	-	-	-	-	-
Carrying amount	-	-	-	-	-
Neither past due nor impaired	-	23,230	136,000	979,959	729,466
Carrying amount	-	**23,230**	**136,000**	**979,959**	**729,466**
Restructured and rescheduled loans and other receivables	-	-	-	88,405	53,764
Carrying amount	-	-	-	**88,405**	**53,764**
Carrying amount (amortised cost)	-	**23,230**	**136,000**	**1,060,453**	**777,401**

Impaired loans and advances

Individually impaired loans are loans and advances for which the Group 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.

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 Group 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 Group.

XXXI. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

Reserve for possible loan losses

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

The Group 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 Group writes off a loan balance and any related allowances for impairment losses, when Group 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 Group 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.

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XXXI. 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 2017**	**31 December 2016**
Secured cash loans	915,672	744,178
Secured by cash collateral	87,537	50,999
3rd party guarantees	170,358	313,617
Secured by mortgages	191,273	100,650
Secured by customer cheques & acts	171,636	8,653
Vehicle pledge	54,858	73,621
Marketable securities	96,832	115,500
Assignment of receivables	143,174	81,138
Non-secured cash loans	122,949	17,905
Accrued interest income on loans	21,832	15,318
Total performing cash loans	**1,060,453**	**777,401**

Non-cash loans(*)	**31 December 2017**	**31 December 2016**
Secured non-cash loans	279,887	248,041
Personal guarantees	-	248,027
Secured by cash collateral	1,010	14
Assigment of receivables	13,250	-
3rd party guarantees	227.454	-
Secured by customer cheques & acts	18,000	-
Secured by mortgages,	455	-
Vehicle pledge	37,719	-
Non-secured non cash loans	254.315	221,111
Total non-cash loans	**552,202**	**469,152**

(*) Other commitments, letters of credit and bank acceptances are not included.

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XXXI. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Segment concentration

The Group 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	
	2017	2016	2017	2016
Banks	23,230	136,000	-	-
Manufacturing	-	-	16,568	19,101
Production	-	-	16,568	19,101
Construction	-	-	218,505	99,405
Services	-	-	654,845	384,674
Wholesale and retail trade	-	-	152,797	111,627
Hotel food and beverage services	-	-	114,965	-
Financial institutions	-	-	359,623	129,419
Communication services	-	-	25,163	11,415
Health and social services	-	-	2,387	-
Renting Service	-	-	-	132,213
Other	-	-	170,503	274,221
Non-performing loans net	-	-	32	-
Total	**23,230**	**136,000**	**1,060,453**	**771,401**

		Due from banks		Loans and advances to customers	
	Notes	2017	2016	2017	2016
Turkey	-	12,661	134	881,218	636,826
Europe	-	8,852	1,624	25,163	-
Other	-	1,717	375	154,042	140,575
	6, 10	**23,230**	**136,000**	**1,060,453**	**777,401**

XXXI. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Fair value through profit or loss (FVTPL)

At 31 December 2017, the Group has financial assets at FVTPL amounting to TL 1,665 (31 December 2015– TL 2,593). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	31 December 2017	31 December 2016
Derivatives	8	1,665	2,593
Fair value and carrying amount		**1,665**	**2,593**

c) Liquidity risk

Liquidity risk is the risk that the Group 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 Group 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 Group’s liquidity ratios in 2017 and 2016 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency (%)	Total (%)	Foreign currency (%)	Total (%)
2017 average	222	253	113	144
2016 average	176	238	106	137

XXXI. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

As at 31 December 2017 and 31 December 2016, the following table provides the contractual maturities of the Group's financial liabilities.

	31 December 2017						
	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	462,441	510,523	331,959	70,708	-	57,494	50,362
Debt securities Issued	638,849	668,280	573,056	11,974	83,250	-	-
	1,101,290	**1,178,803**	**905,015**	**82,682**	**83,250**	**57,494**	**50,362**

	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**

XXXI. 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 2017	Demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	14,913	11,317	452	-	-	-	-	26,682
Reserve deposits	253,397	58,895	-	-	-	-	-	312,292
FVTPL investments	-	1,075	590	-	-	-	-	1,665
Available for sale investments	-	1,075	5,536	305	-	91,081	37,622	136,519
Loans and advances to customers	-	325,049	131,237	160,172	370,650	73,313	32	1,060,453
Other assets	-	146,637	-	-	-	-	9,912	156,549
Total assets	**268,310**	**544,948**	**137,815**	**160,477**	**370,650**	**164,394**	**37,622**	**1,694,160**
Funds borrowed (*)	89,858	81,362	123,560	99,632	49,133	37,797	-	481,342
Debt securities issued(**)	-	107,644	292,706	169,840	68,659	38,366	-	677,215
Other liabilities	53,034	158,226	74,933	14,719	8,349	-	226,342	535,603
Total liabilities	**142,892**	**347,232**	**491,199**	**284,191**	**126,141**	**76,163**	**226,342**	**1,694,160**
Liquidity gap	**125,418**	**197,716**	**(353,384)**	**(123,714)**	**244,509**	**88,231**	**(188,720)**	**-**
Off Balance Sheet Position	**-**	**(4,515)**	**(2,891)**	**(395)**	**1,452**	**-**	**-**	**(6,349)**
Receivables from derivatives	-	414,504	158,339	6,425	153,438	-	-	732,706
Liabilities from derivatives	-	419,019	161,230	6,820	151,986	-	-	739,055
Non cash loans	**-**	**-**	**-**	**9,519**	**93,706**	**503,212**	**-**	**606,437**

(*) Includes Subordinated loans amounting to TL 18,901 in over 5 year line.
(**) Includes Subordinated bonds amounting to TL 38,366 in over 5 year line.

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XXXI. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

31 December 2016	Demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	2,736	133,578	-	-	-	-	-	136,314
Reserve deposits	57,161	26,905	-	-	-	-	-	84,066
FVTPL investments	-	1,961	405	-	227	-	-	2,593
Available for sale investments			2,045	7,973	5,276	3,699	26,521	45,514
Loans and advances to customers	-	86,325	2,031	248,268	397,156	43,621	-	777,401
Other assets		98,713					24,950	123,663
Total assets	**59,897**	**347,482**	**4,481**	**256,241**	**402,659**	**47,320**	**51,471**	**1,169,551**
Funds borrowed	-	37,721	22,821	81,112	16,702	35,211	-	193,567
Debt securities issued	-	99,522	191,648	170,858	63,825	35,758	-	561,611
Derivative financial liabilities	-	3,385	4,554	4,764			-	12,703
Other liabilities	24,164	102,812	111,687	-	17	-	162,990	401,670
Total liabilities	**24,164**	**243,440**	**330,710**	**256,734**	**80,544**	**70,969**	**162,990**	**1,169,551**
Liquidity gap	**35,733**	**104,042**	**(326,229)**	**(493)**	**322,115**	**(23,649)**	**(111,519)**	**-**
Off Balance Sheet Position	**-**	**(1,363)**	**(4,715)**	**593**	**20,358**	**-**	**-**	**14,873**
Receivables from derivatives	-	150,308	201,452	88,235	83,250	-	-	523,245
Liabilities from derivatives	-	151,671	206,167	87,642	62,892	-	-	508,372
Non cash loans	**-**	**-**	**-**	**29,936**	**46,302**	**466,537**	**-**	**542,776**

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XXXI. 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 Group's income or the value of its holdings of financial instruments.

The Board of Directors of the Group determines the risk limits for primary risks carried by the Group and periodically revises these limits. For the purpose of hedging market risk, the Group 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 2017 and 31 December 2016 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:

	2017			2016		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	4,388	5,523	3,550	1,210	3,965	340
Equity price risk	-	-	-	-	-	-
Currency risk	512	952	80	492	1,056	87
Counter party risk	-	-	-	268	1,647	-
Total value-at-risk	**4,900**	**6,475**	**3,630**	**1,970**	**6,668**	**427**

XXXI. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk

The Group 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 Group is subject to due to the exchange rate movements in the market.

Position limit of the Group 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
2017				
Assets				
Cash and cash equivalents	15,969	9,988	245	26,201
Reserve deposits at Central Bank	31,958	26,936	-	58,895
Loans and advances to customers	25,181	293,273	-	318,454
Available for sale investments	86,039	-	-	86,039
Other assets	131,716	45	-	131,761
Total assets	**290,863**	**330,242**	**245**	**621,350**
Liabilities				
Funds borrowed	201,747	181,340	8,830	391,917
Subordinated debts	57,267	-	-	5ö7,267
Other liabilities	13,576	248,630	-	262,206
Total liabilities	**272,590**	**429,970**	**8,830**	**711,390**
Gross exposure	**18,273**	**(99,728)**	**(8,585)**	**(90,040)**
Off-balance sheet position				
Net notional amount of derivatives	(13,418)	100,366	8,737	95,685
Net exposure	**4,855**	**638**	**152**	**5,645**

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XXXI. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk (continued)

	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**

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XXXI. 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 2017 and 31 December 2016 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.

2017	Equity	Profit or loss
EUR	64	64
USD	486	486
Other currencies	15	15
Total	**565**	**565**

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

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2017 and 31 December 2016 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 Group's position is managed by the Asset and Liability Committee of the Group.

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

XXXI. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Interest rate risk (continued)

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2017 and 31 December 2016:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2017							
Assets							
Cash and cash equivalents	11,317	452	-	-	-	14,913	14,913
Reserve deposits at Central Bank	58,895	-	-	-	-	253,397	253,397
FVTPL investments	1,075	590	-	-	-	-	-
Available for sale investments	1,975	5,536	86,344	-	5,042	37,622	37,622
Loans and advances to customers	325,081	131,237	160,172	370,650	73,313	-	-
Other assets	-	-	-	-	-	156,549	156,549
Total assets	**398,343**	**137,815**	**246,516**	**370,650**	**78,355**	**462,481**	**462,481**
Liabilities							
Funds borrowed (*)	81,361	123,561	99,632	49,133	37,797	89,858	89,858
Debt securities issued (**)	107,644	292,706	242,577	34,288	-	-	-
Other liabilities(***)	7,987	2,496	-	8,348	-	516,772	516,772
Total liabilities	**196,992**	**418,763**	**342,209**	**91,769**	**37,797**	**606,630**	**606,630**
On balance sheet interest sensitivity gap	201,351	(280,948)	(95,693)	278,881	40,558	(144,148)	(144,148)
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**201,351**	**(280,948)**	**(95,693)**	**278,881**	**40,558**	**(144,148)**	**(144,148)**

(*) Includes Subordinated loans amounting to TL 18,901 in over 5 year line.
(**) Includes Subordinated bonds amounting to TL 38,366 in over 5 year line.
(***) Derivative financial instruments include in other liabilities.

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XXXI. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Interest rate risk (continued)

	Less than 1 month	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 (**)	129,892	227,406	143,180	61,133	-	-	561,611
Other liabilities(***)	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**	**-**

(*) 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.
(***) Derivative financial instruments include in other liabilities.

XXXI. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Summary of average interest rates

As at 31 December 2017 and 31 December 2016, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2017			31 December 2016		
	Euro	USD	TL	Euro	USD	TL
Assets						
Cash and balances with the Central Bank	-	1.5	3.85	-	0.75	2.91
Due from banks	0.05	1.15	11.92	0.03	0.60	9.44
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	-
Available for sale financial assets	-	9.72	14.01	-	8.67	13.46
Loans and advances to customers	6.52	9.81	17.82	6.70	9.20	16.55
Other	-	-	-	-	-	-
Liabilities						
Other money market deposits	-	-	-	-	-	-
Funds borrowed	2.87	5.16	14.13	3.39	2.46	10.99
Debt securities issued	-	10.00	13.11	-	10.00	11.89
Funds from other financial institutions	2.69	4.09	11.94	1.02	0.56	9.72

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 Group 's operations and are faced by all business entities.

The operational risk items in the Group 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 Group 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.

The Group 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, 2014, 2015 and 2016. The amount calculated as TL 101,003 as at 31 December 2017 (31 December 2016 - TL 64,002) represents the operational risk that the Group may expose and the amount of minimum capital requirement to eliminate this risk.

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XXXI. Financial risk management objectives and policies (continued)

f) Capital management

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

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

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

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

	31 December 2017	31 December 2016
Amount subject to credit risk (I)	1,449,011	1,171,858
Amount subject to market risk (II)	51,433	50,285
Amount subject to operational risk (III)	101,003	64,002
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**1,601,447**	**1,286,145**
Shareholders' equity:		
Tier 1 capital	219,195	155,851
Tier 2 capital	69,846	67,148
Total regulatory capital	**289,041**	**222,999**
Capital adequacy ratio	**18.05%**	**17.34%**

XXXI. 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 Group 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 Group's classification of each class of financial assets and liabilities and their fair values.

	Notes	Trading	Loans and receivables	Availablefor sale	Other amortised cost	Total carrying amount	Fair value
2017							
Cash and cash equivalents	6	-	26,682	-	-	26,682	26,682
Reserve deposits at Central Bank	7	-	312,292	-	-	312,292	312,292
FVTPL investments	8	1,665	-	-	-	1,665	1,665
Available for sale investments	9	-	-	136,519	-	136,519	136,519
Loans and advances to customers(1)	10	-	1,060,453	-	-	1,060,453	1,060,453
Other asset		-	-	-	145,156	145,156	145,156
		1,665	**1,399,427**	**136,519**	**145,156**	**1,682,767**	**1,682,767**
Funds borrowed	15	-	-	-	462,441	462,441	506,699
Debt securities issued(1)	17	-	-	-	638,849	638,849	638,849
Derivative financial liabilities		18,831	-	-	-	18,831	18,831
Other liabilities		-	-	-	265,129	265,129	265,129
		18,831	**-**	**-**	**1,366,419**	**1,385,250**	**1,429,508**

(1) The Group management assumes that the fair values of the loans and debt securities issued approximate their carrying values since the majority of them are short-term.

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XXXI. Financial risk management objectives and policies (continued)

g) Fair values (continued)

	Notes	Trading	Loans and receivables	Availablefor sale	Other amortised cost	Total carrying amount	Fair value
2016							
Cash and cash equivalents	6	-	136,314	-	-	136,314	136,314
Reserve deposits at Central Bank	7	-	84,066	-	-	84,066	84,066
FVTPL investments	8	2,593	-	-	-	2,593	2,593
Available for sale investments	9	-	-	45,514	-	45,514	45,514
Loans and advances to customers(1)	10	-	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	15	-	-	-	175,961	175,961	214,012
Debt securities issued(1)	17	-	-	-	525,853	525,853	525,853
Derivative financial liabilities		12,703	-	-	-	12,703	12,703
Other liabilities		-	-	-	210,111	210,111	210,111
		12,703	**-**	**-**	**911,925**	**924,628**	**924,628**

(1) The Group management assumes that the fair values of the loans and debt securities issued 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.

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XXXI. 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 Group 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 Group 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 Group 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. 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:

	Note	Level 1	Level 2	Level 3	Total
Derivative financial assets	8	-	1,665	-	1,665
Available for sale investments	9	136,519	-	-	136,519
Investment property	13	-	-	4,440	4,440
Derivative financial liabilities	22	-	18,831	-	18,831

	Note	Level 1	Level 2	Level 3	Total
Derivative financial assets	8	2,593	-	-	2,593
Available for sale investments	9	45,514	-	-	45,514
Investment property	13	-	-	19,920	19,920
Derivative financial liabilities	22	-	12,703	-	12,703

XXXII. 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 Group 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 2017	Balance	Percentage of the financial statement amount (%)
Non-cash loans	16,475	3%
Funds borrowed / Current accounts of loan customers	100,707	22%

31 December 2016	Balance	Percentage of the financial statement amount (%)
Non-cash loans	28,142	6%
Funds borrowed / Current accounts of loan customers	9,970	6%

31 December 2017	Balance	Percentage of the financial statement amount (%)
Interest and commission income	3,842	2%
Other operating expense (-)	-	0%

31 December 2016	Balance	Percentage of the financial statement amount (%)
Interest and commission income	13,987	9%
Other operating expense (-)	4,160	17%

As at 31 December 2017, no provisions have been recognised in respect of loans given to related parties (2016 – none).

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 6,658 comprising salaries and other benefits for the period 1 January-31 December 2017 (1 January - 31 December 2016: TL 5,801).

XXXIII. 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

Arjantin Cad. No:12/A Gaziosmanpaşa, 06680 Çankaya / Ankara
T: 0(312) 426 08 95-96-97
F: 0(312) 466 60 39


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