MOST VALUABLE INVESTMENT IS TRUSTING FACES

nurolBANK

2018 ACTIVITY REPORT

nurolBANK

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Most valuable investment is trusting faces

Without doubt, finance is more than just the numbers. It is very important, especially in investment banking, to read the statements correctly and to see the insights of the activities in order to achieve the expectations.

What defines us better than the numbers and is more valuable to us than the achievements we have accomplished in investment banking is your smiling faces.

With this understanding, we share the positive outlook of the hopeful faces on life and the future… Try to guide your investments in the safest way to eliminate the future concerns on anxious faces... Support the strong stance on decisive faces with our expertise, experience and ability to evaluate different options... Look at the world from the same point with people whose faces are turned towards success...

To make you and all our shareholders smile with confident and satisfied faces.

OUR BANK

ABOUT US, OUR VISION, OUR MISSION, OUR STRATEGIES

About Us

Nurolbank, which started its operations in 1999 and whose General Directorate is in Istanbul, offers its clients a wide range of investment banking and corporate banking services.

With its capital structure and qualified human resources, Nurolbank aims to create economic value with the awareness of being involved among the leading banks in the field of investment banking in Turkey, and to serve customers with whom it can establish long time relationships and who are in need of various financing products.

Nurolbank offers services that enable all of its customers to increase their productivity and reduce the level of risk they incur, significantly control their costs and increase their market share.

Nurolbank provides creative and innovative products and services on the following issues in accordance with the needs of its customers with the knowledge and experience of its team consisting of professionals with technical expertise and local market experience;

- Financing instruments constructed to provide alternative sources of fund,
- Complex financial modeling,
- Optimum financial package configuration,
- Equity finance consultancy,
- Creating new sources of funds from local and international institutions and capital markets.

Nurolbank continues down its road through its bank management policies established with cautious and sound forecasts. Our Bank will continue to serve with information and flexible financial solutions at the right time for companies in today's variable, interdependent and highly competitive markets.

ABOUT US, OUR VISION, OUR MISSION, OUR STRATEGIES

Our Vision

To provide solutions at global standards for the organizations that need support in financial issues in Turkey.

Our Mission

To identify the financial problems and needs of our customers and to offer solutions, and to be a niche bank capable of realizing these solutions, providing its shareholders with returns equal to at least market conditions and standing on its own feet independent of the group.

Our Strategy

- To focalize all our staff on the target with corporate culture and team mentality,
- To give importance to resource and product variety,
- To develop products and services by identifying customer needs well and to provide intermediary services,
- To become the best investment bank of Turkey.

CAPITAL, PARTNERSHIP STRUCTURE and SHARE PROPORTIONS OF THE BOARD MEMBERS

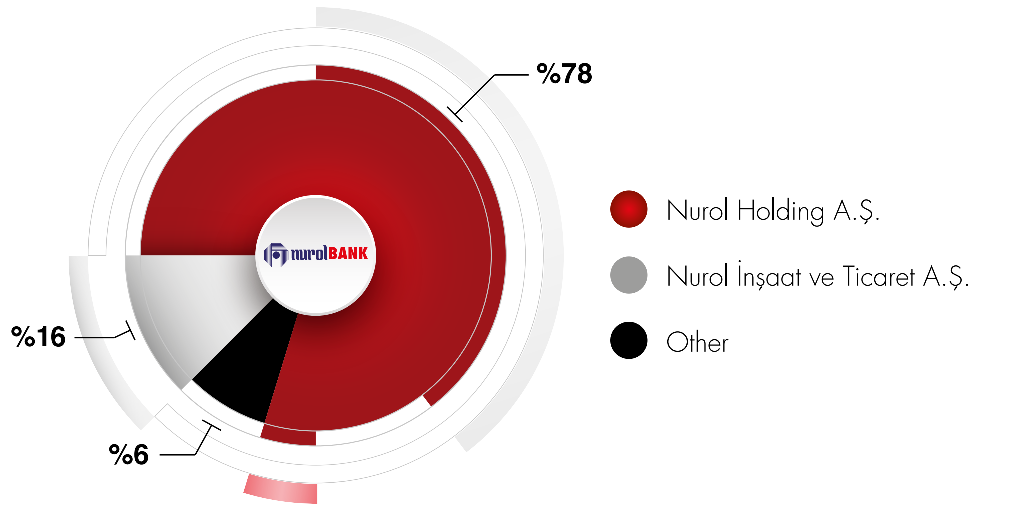
As of 31 December 2018, the shareholders and the capital structure are as follows:

Ad Soyad / Ticari Ünvan	Hisse Adedi	Hisse Tutarı (Bin TL)	Hisse Oranı %
Nurol Holding A.Ş.	125,052	125,052	%78.16
Nurol İnşaat ve Ticaret A.Ş.	25,536	25,536	%15.96
Nurol Otelcilik ve Turizm İşletmeleri A.Ş.	1,412	1,412	%0.88
Nurettin Çarmıklı	1,422	1,412	%0.89
Erol Çarmıklı	1,422	1,412	%0.89
Mehmet Oğuz Çarmıklı	1,422	1,412	%0.89
Eyüp Sabri Çarmıklı	1,244	1,244	%0.78
Oğuzhan Çarmıklı	1,244	1,244	%0.78
Gürol Çarmıklı	622	622	%0.39
Gürhan Çarmıklı	622	622	%0.39
	160,000	160,000	%100.00

The shares of the Chairman and Deputy Chairmen of the Board as of the end of 2018 are given in the table below. The General Manager and the Board Members do not have any shares in the bank except the Board Members in the table below.

	Hisse Adedi	Hisse Oranı %
Mehmet Oguz Carmikli - Deputy Chairman of the Board	1,422	%0.89
Eyup Sabri Carmikli - Board Member	1,244	%0.78
Gurhan Carmikli - Board Member	622	%0.39

NUROLBANK PARTNERSHIP STRUCTURE



In accordance with the decision taken at the 28.03.2018 dated extraordinary general assembly meeting, the Company Capital was increased from 125,000,000.00 TL to 160,000,000.00 TL and the entire of this increase constituted of the retained earnings.

In line with the increase in the capital of the Company, Article 7 of the Company's Articles of Association has been amended, and the Amendment Agreement approved by the Ministry of Customs and Trade General Directorate of Domestic Trade on 07.05.2018 with no. 9572 was unanimously accepted as it was approved by the Ministry.

NUROLBANK'S OBJECTIVES AND EXPECTATIONS IN 2019

- The inclusion of companies operating in the commercial customer segment into our banking portfolio in addition to Corporate Banking, thus increasing the sectoral diversity,
- Increasing both interest and commission income by creating synergy through intermediation of private sector bond issuance,
- Ensuring customer diversity and developing new products and services based on well identification of customer needs,
- Strengthening the resource structure by issuing debt instruments at various maturities

With these goals, we aim to observe in-group and non-group customer balance constantly and take precautions towards increasing its productivity, ensure the efficient use of the sources which will be created through our bank's equity security/bond issuances, continue the efforts of increasing the recognition of the bank, and pursue all of these within the frame of an approach involving a systematic risk analysis and control.

Project Finance and Business Development

The main objective of Investment Banking is to identify the needs of corporate and commercial customers and to create "tailormade" solutions appropriate to their requests, demands and structures. As a bank and a group, primarily, project conformity analyzes are carried out in basic infrastructure projects and the areas of transportation, energy and telecommunication with the experience and knowledge gained and consultancy services are provided on the issues of providing strategic/financial partners, reconstructed finance and project finance by supporting the projects.

Nurolbank has the equipment and teams that could play a key role in every stage of a sound and efficient project and offers different products ranging from the provision of medium and long term financing to bridging loans.

Corporate Finance

Nurolbank offers corporate finance consultancy services with its strong and qualified team for finding financing solutions for domestic and foreign companies to benefit from the capital and loan market in maximum, for mergers and acquisitions, intermediation for public offering, financial restructuring and privatization projects.

Corporate finance team provides six main services:
- Financial restructuring
- Intermediation for public offering
- Acquisitions and mergers
- Privatization consultancy
- Financial and/or strategic partner
- Investment like private equity

Our Bank has the opportunity to closely follow so many companies and sectors in Turkey with its loan customers portfolio. A significant knowledge has been created up to now thanks to the significant activities carried out both by our bank and the group, and the relations established with the foreign and domestic companies during these activities. This knowledge and experience have increased the ability of Nurolbank to absorb different needs of each customer and to create customer specific solutions, and allowed our bank to have an exclusive place in investment banking in Turkey.

It also provides consultancy services for the real estate investment trusts with the knowledge and experience created by the group experience in the real estate sector, which is growing rapidly depending on the development of Turkish economy and the increase in capital accumulation.

It is aimed in 2019 to identify the growing companies within the scope of the sectors we determined, to provide acquisition and merger consultancy for the potential companies under M&A through our foreign connections, to mediate companies which need financing in finding financial partners, to offer low risk resources with financing products reconstructed according to the financial needs of these companies and to contribute to the return on assets of our bank.

Treasury

Treasury Department is responsible for fulfilling its obligations against the supervisory and regulatory institutions such as Central Bank of Turkey, Council of Bank Audit and Regulation and Capital Markets Board, and managing the liquidity and balance sheet of our Bank. Fulfilling our promises on time in full thanks to our knowledge and experience in the field of treasury services, ensuring the liquidity by taking the growth and strategies into account, diversifying our balance sheet, finding alternative investment channels, diversifying and minimizing our risks, increasing our revenues by reducing costs, following the additional obligations and legal ratios are among our main objectives.

2018 was a year in which significant volume increases took place in important fields of activity for Treasury Department as it was in 2017. In line with the developments in the markets during the year, our Department has ensured taking necessary precautions without having liquidity problems thanks to correct timing, providing fast information flow and market information to the customers from the first hand besides taking necessary changes and precautions in terms of the Bank's position with the help of its experienced and expert staff. In 2018, the Treasury Department of Nurol Investment Bank successfully achieved sustainable profitability by increasing efficiency.

In 2019, it shall continue to take its product range beyond existing treasury products for the purpose of contributing to the profitability and effectiveness of the Bank, to provide necessary information flow through market analysis by effectively managing market, exchange rate, interest, liquidity and operational risks, and to continue to support its customers on the prices and types of products.

We will continue to make difference in 2019 with our expert team and innovative approach.

Financial Institutions and Investor Affairs

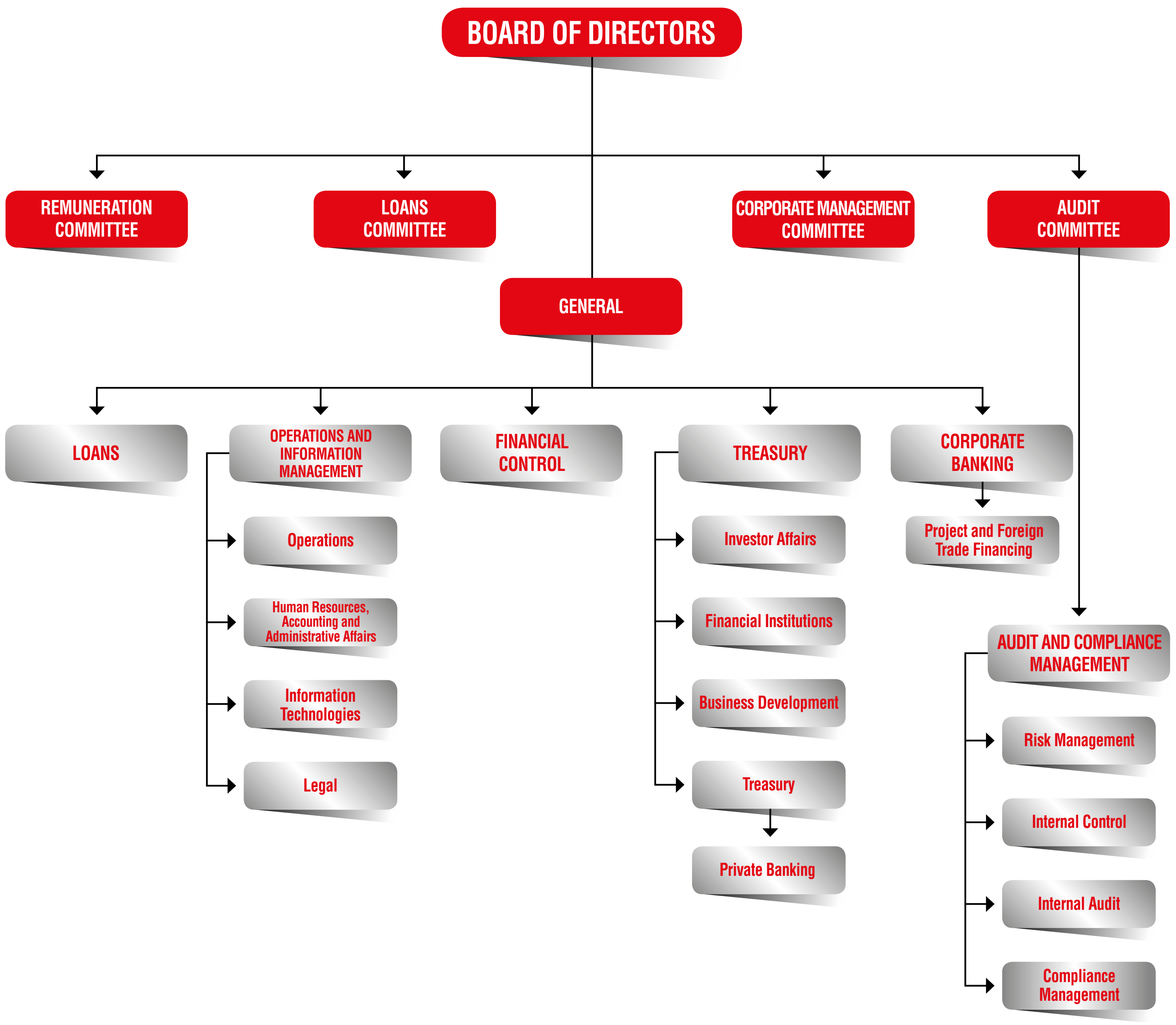
Department of Financial Institutions and Investor Affairs carries out debt instrument issuances of the Bank through Capital Markets which enable better recognition of the Bank in national and international markets by larger masses, conducting relations of Nurol Investment Bank with domestic and foreign banks and institutions through correspondent relations developed in line with the operations performed by the Treasury Department, and contacting with new institutions and organizations toward the needs that will arise. In 2018, a total of 2.4 Billion TL borrowing was realized through the issuance of 25 separate debt instruments.

In 2018, Department of Treasury and Financial Institutions contributed to the increase of transaction volumes especially on the developing markets by increasing the number of current correspondents. Volumes of letters of credit in the field of foreign trade financing were significantly increased thanks to the cash and non-cash limits created within the correspondent banks during 2018, and a new type of correspondent bank diversity was created on the funds provided from foreign markets. New foreign currency accounts were opened and the product range offered to the customers were expanded in line with the developing foreign trade and treasury transaction volumes of the Bank. The amount of funds obtained from foreign and domestic financial institutions reached to 708 Million TL and constituted an important position in the liability items of the bank.

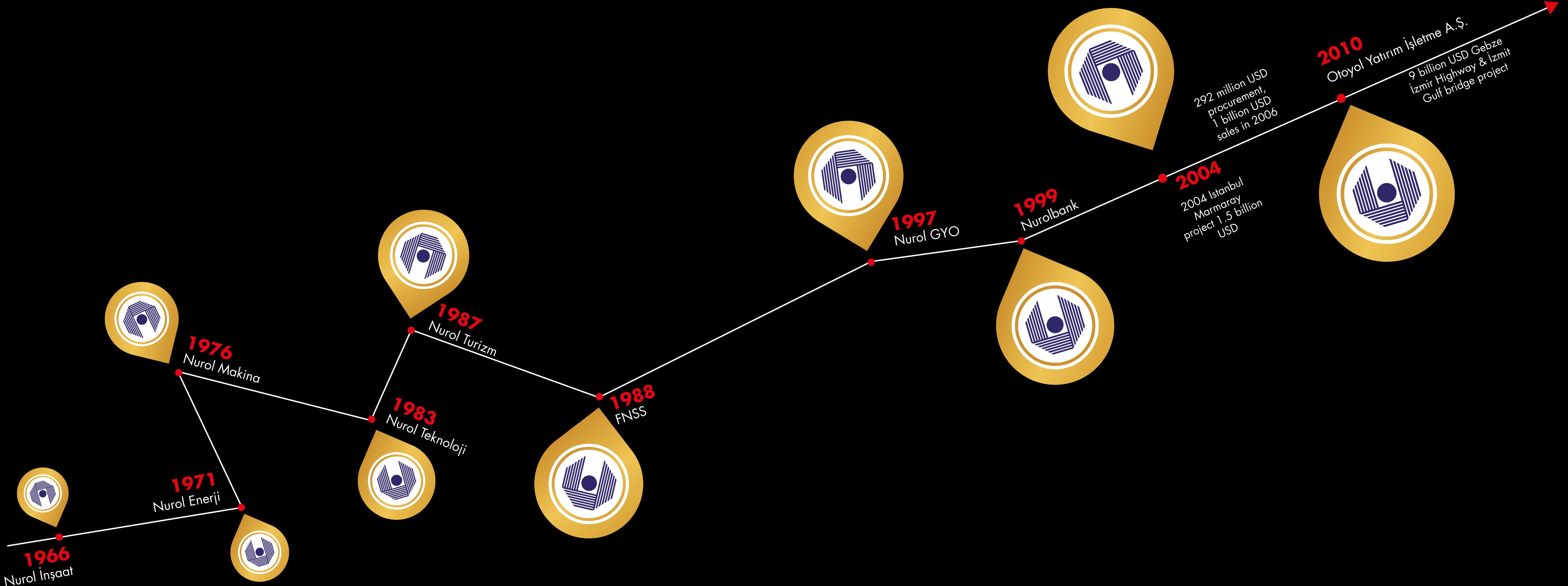
Research and development practices related to the new services and activities

There are no research and development studies related to the new services and activities during the period.

NUROL INVESTMENT BANK INCORPORATED COMPANY'S ORGANIZATIONAL CHART



NUROL HOLDING MILESTONES



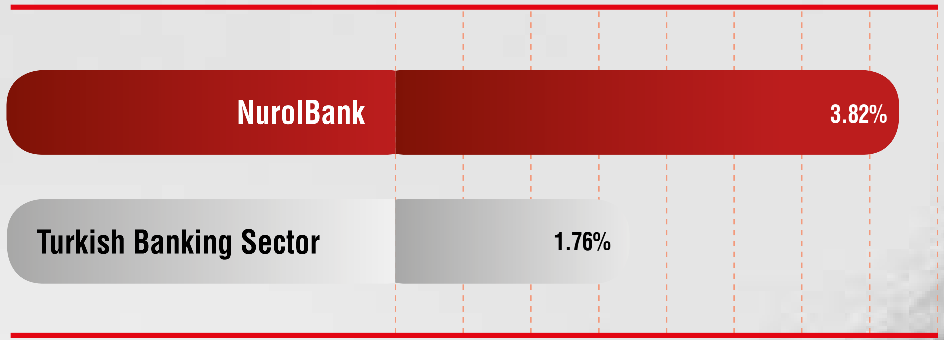
FINANCIAL INDICATORS

Rating of the Rating Agency

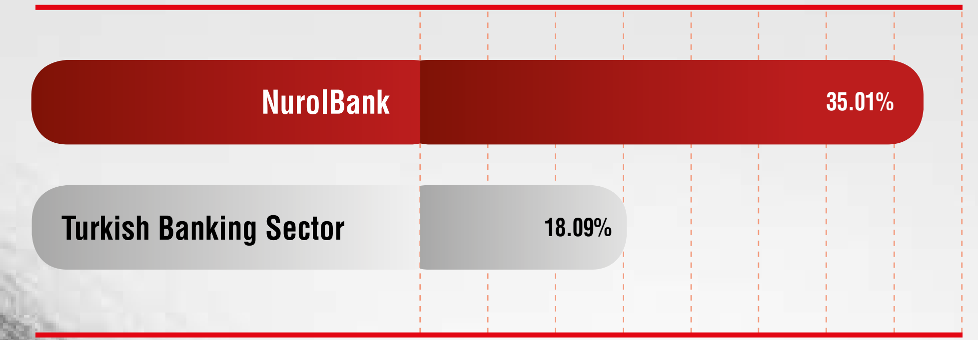
JCR Eurasia Rating assessed “Nurol Investment Bank Inc.” within the category suitable for investment at national level during the periodical review process, and confirmed its Long-Term National Grade as ‘AA (Trk)’ and “Stable” outlook, and the Short-Term National Grade as ‘A-1 (Trk)’ and “Stable” outlook. On the other hand, it confirmed its Long-Term International Currency Grade as ‘BBB-’.

In 2018, our Bank became the second Turkish investment bank rated by the international rating agency Moody’s and whose reports were disclosed to public.

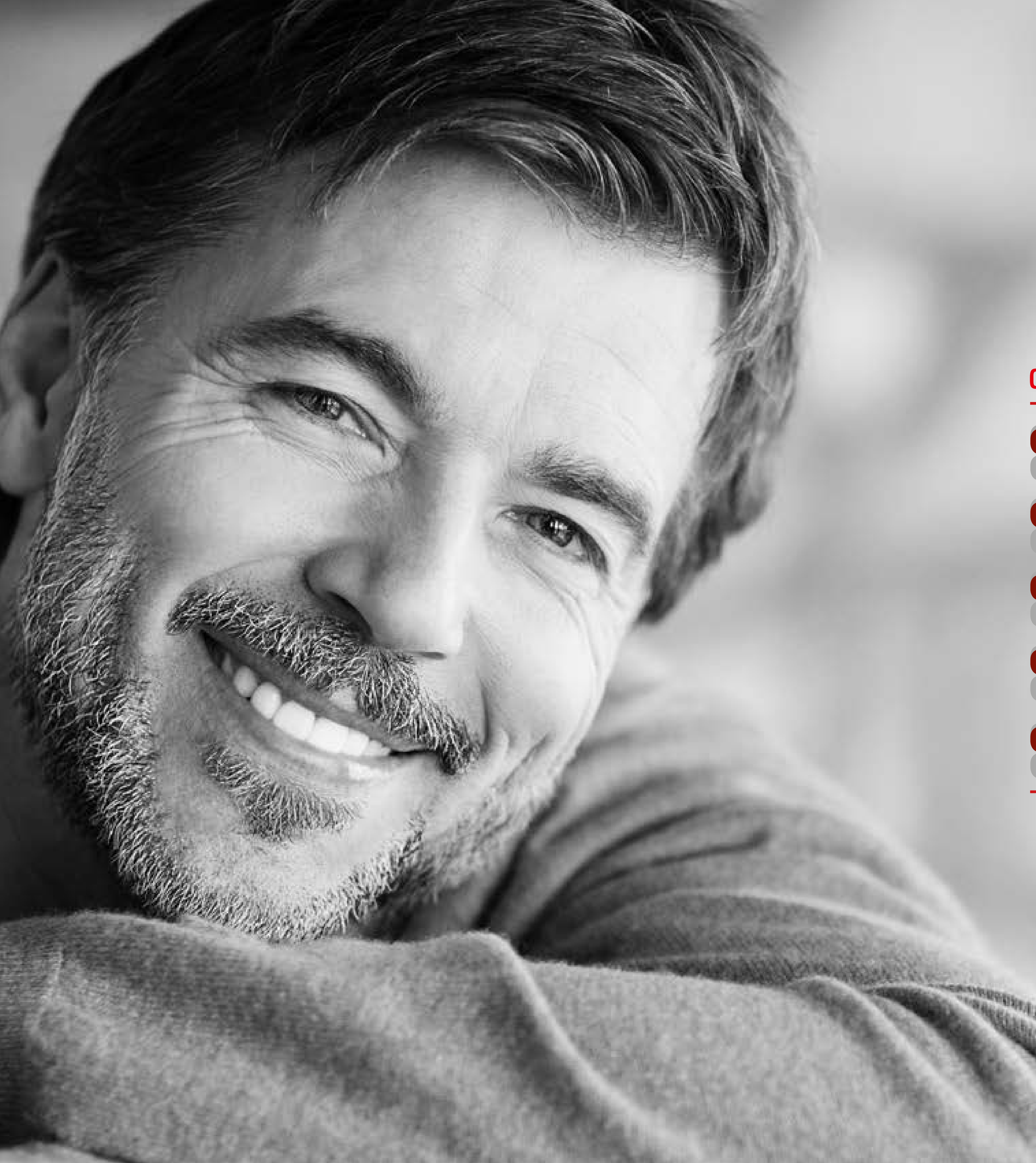
Return on Assets Ratio (Per Profit Before Tax) 2018



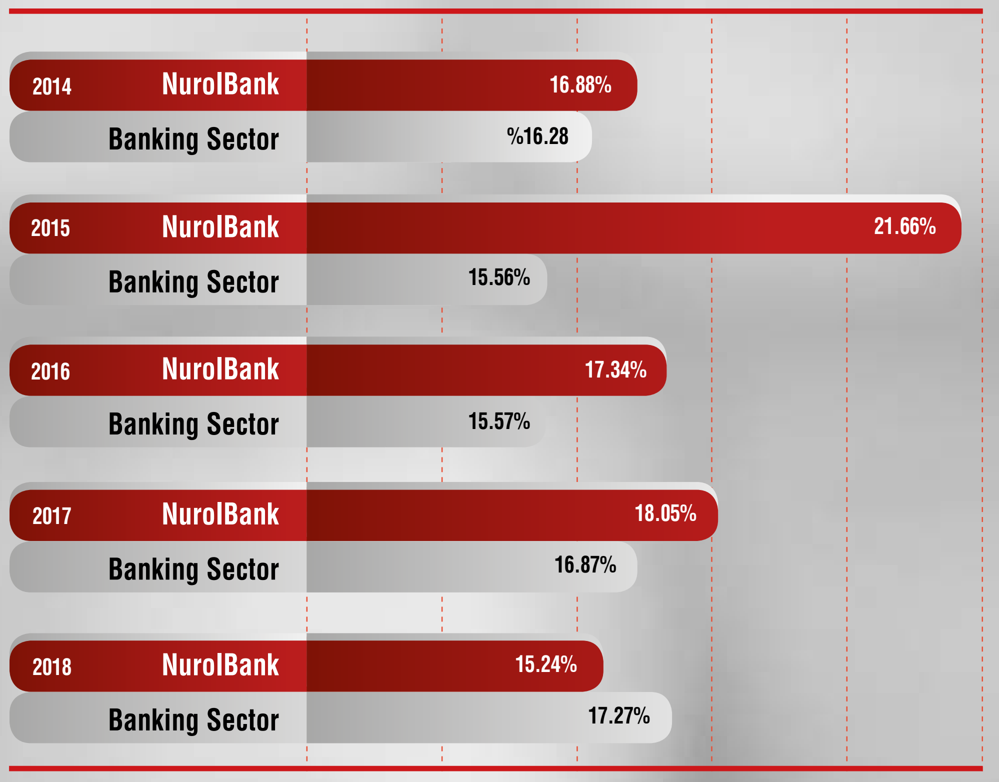
Return on Equity Ratio (Per Profit Before Tax) 2018



THE PRIDE REFLECTED ON OUR FACES

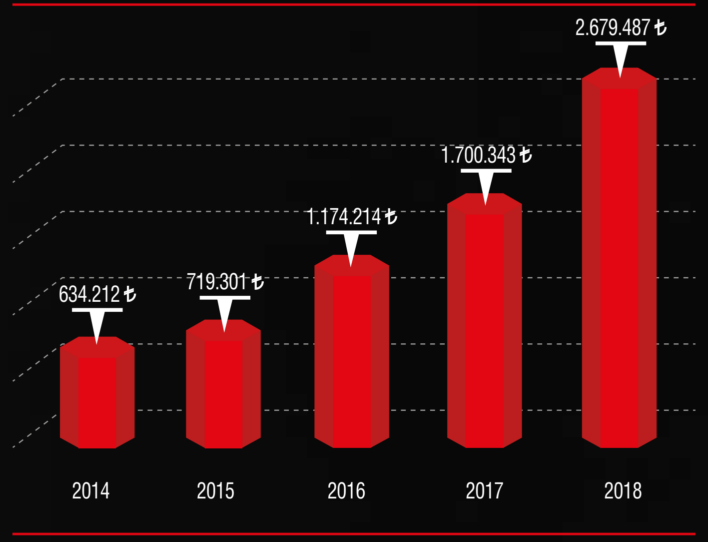


Capital Adequacy Ratio

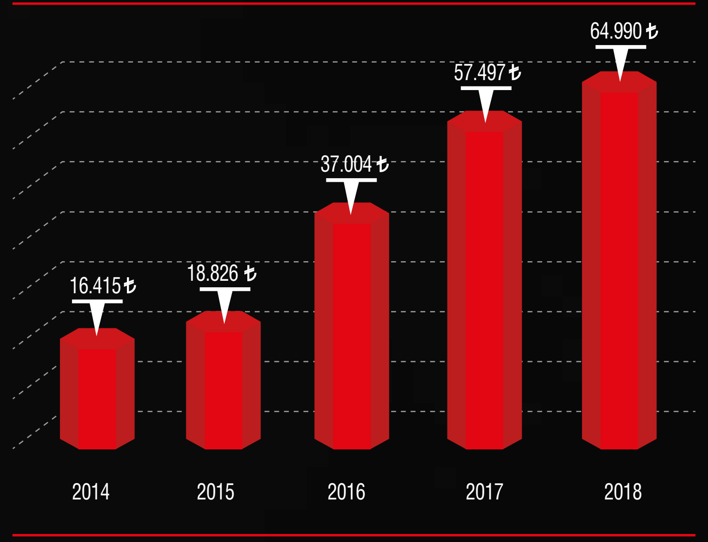


WE ALWAYS TURN OUR FACES
TOWARDS SUCCESS

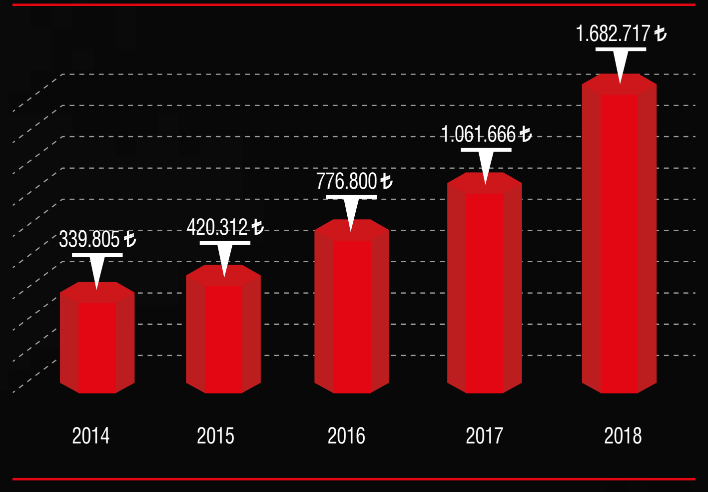
Total Assets (TL)



Net Profit (TL)

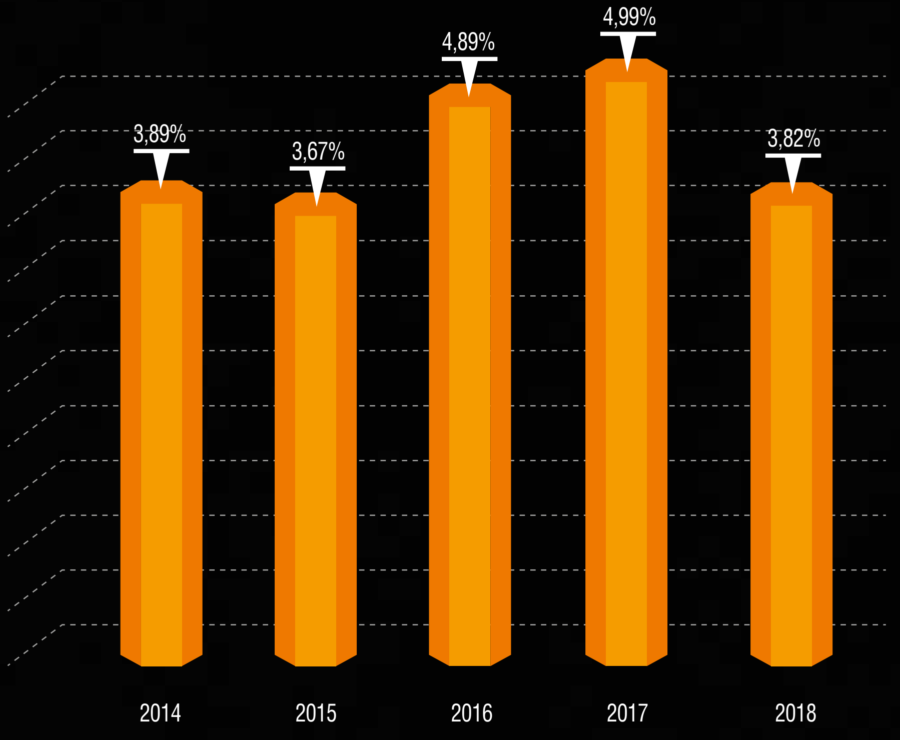


Total Loans (TL)

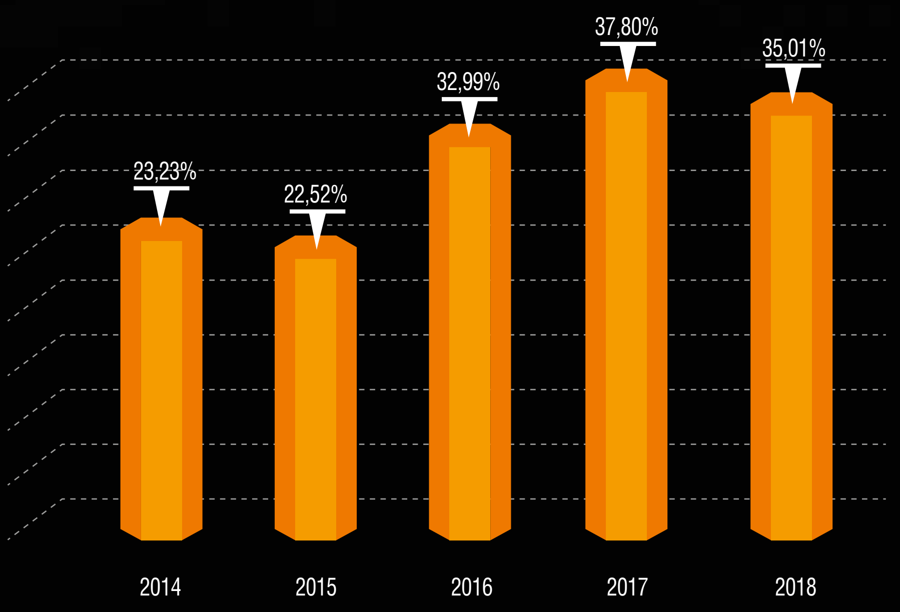


WHAT REALLY MATTERS IS
TO EARN TRUST

Average Return on Assets (Per Profit Before Tax)

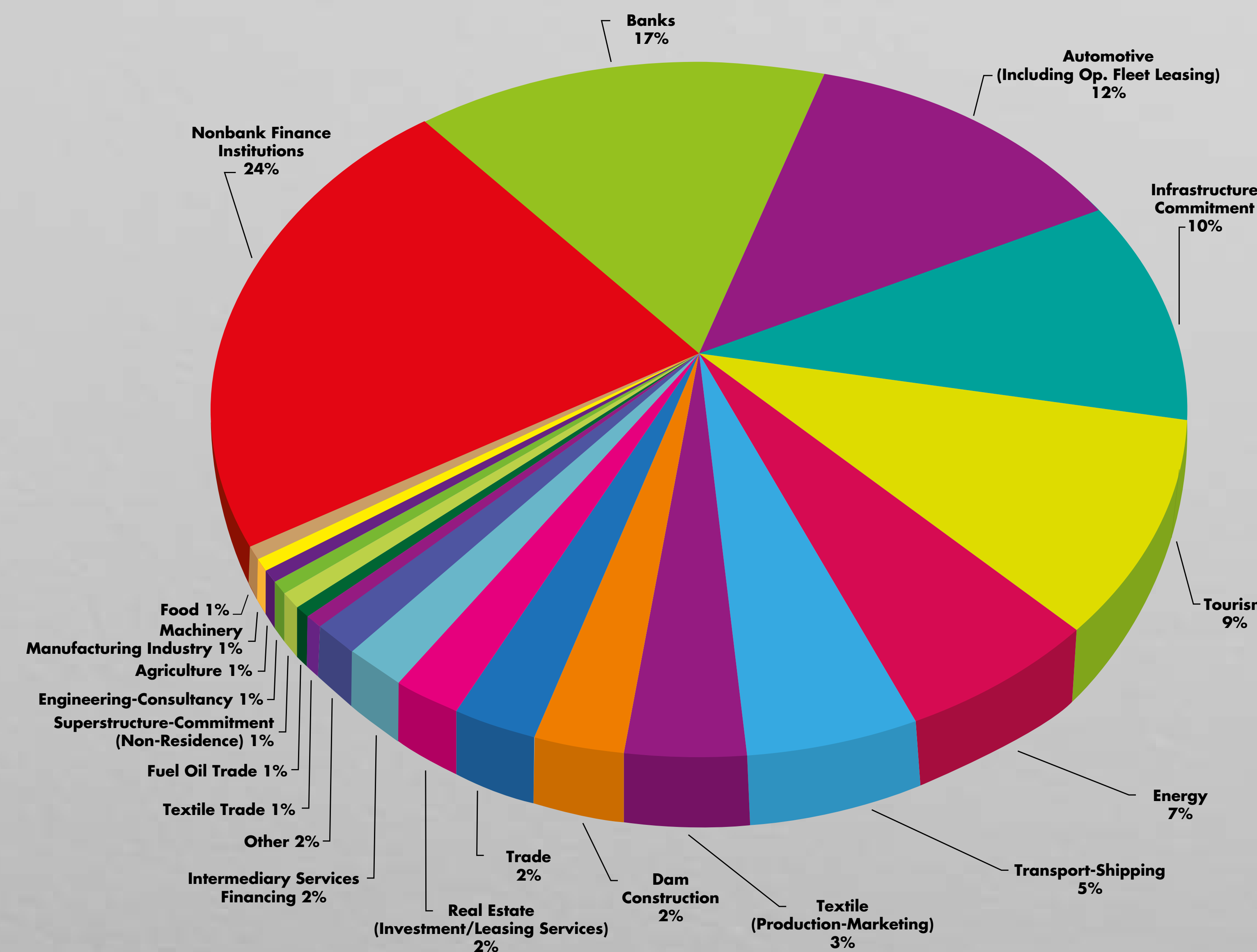


Average Return on Equity (Per Profit Before Tax)



PROTECTING OUR VALUABLES

SECTORAL BREAKDOWN OF TOTAL RISKS



NUROLBANK'S ACTIVITIES IN 2018 AND ITS POSITION IN THE SECTOR

- As of 31 December 2018, the paid capital of our Bank was 160 million TL and our Total Equities amounted to 255 million TL.
- Our Bank's size of assets amounted to 2,679 million TL as of December 31, 2018.
- Cash Loans constitute 62.80% of total Assets with 1,683 million TL.
- Total Cash Loans Portfolio, which was 1,061 million TL at the end of 2017, increased by 58.50% and raised up to 1,683 million TL level as of December 31, 2018.
- Our Total Cash and Non-cash Loans Portfolio is 2,478 Million TL. 596 million TL of it (24%) consists of Foreign Currency loans and 1,881 million TL of it (76%) consists of Turkish Lira loans.
- As of 2018, 1,683 million TL of our Loan Portfolio (68%) was composed of Cash Loans and 794 million TL of it (32%) was composed of Non-cash Loans.
- Our Capital Adequacy Ratio, which was 18,05% at the end of 2017, had been 15,24% in 2018.
- Our Bank continued to issue Capital Market debt instruments in 2018. It issued debt instruments amounting to 2,472 Million TL in total.

Subsidiaries

Nurol Asset Leasing Inc., a Subsidiary of Nurol Investment Bank Inc., was founded on 14.06.2017. The company closed the year 2018 with a profit / loss of 0 (zero). Its total assets are 174 Million TL and it has Shareholders Equity of 50,000 TL in balance.

FINANCIAL INDICATORS

KEY FINANCIAL INDICATORS

(Thousand TL)	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Total Assets	2,679,487	1,700,343	1,174,214	719,301	634,212
Banks and Other Financial Institutions	82,382	23,230	93,541	106,604	109,210
Securities	80,530	136,519	45,514	34,584	58,755
Total Loans (Cash)	1,682,717	1,061,666	776,800	420,312	339,805
Total Loans (Non-cash)	794,799	606,437	542,776	269,511	308,225
Receivables from Financial Leasing (Net)	-	-	-	8,792	12,336
Issued Securities	736,306	638,849	525,853	382,400	204,629
Loans Obtained	442,010	211,857	150,163	39,586	22,077
Borrower Funds	373,054	190,564	9,970	121,237	45,750
Subordinated Debts	80,254	57,267	53,364	-	-
Shareholders Equity	254,711	221,893	157,941	122,738	97,579
Profit/Loss Before Tax	83,435	71,792	46,305	24,809	20,769
Net Profit/Loss	64,990	57,497	37,004	18,826	16,415

PERFORMANCE RATIOS

Ratios (%)	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Capital Adequacy Standard Ratio	15.24%	18.05%	17.34%	21.66%	16.88%
Average Return on Equity (Per Profit Before Tax)	35.01%	37.80%	32.99%	22.52%	23.23%
Average Return on Assets (Per Profit Before Tax)	3.82%	4.99%	4.89%	3.67%	3.89%
Fixed Assets/Shareholders Equity	74.90%	3.68%	15.06%	5.42%	11.36%
Fixed Assets/Total Assets	7.12%	0.48%	2.03%	0.93%	1.75%
Return Assets/Total Assets	63.28%	71.93%	81.83%	91.10%	94.96%
Loans/Total Assets	62.80%	62.44%	66.15%	58.43%	53.58%

OUR OPINIONS ABOUT THE WORLD AND TURKISH ECONOMY

MESSAGE FROM CHAIRMAN OF THE BOARD

Dear Shareholders, Business Partners and Employees,

As opposed to the previous year, the year 2018, during which we focused on the developments in our country and our immediate vicinity, was from time to time full of surprises and more uncertain and more volatile than expected. Turkish economy experienced a thunder squall summer and a stormy August, and it re-stabilized in the last quarter of the year through the steps taken. It is surely beyond doubt that political, economic and technological developments throughout the world have determined the course of global markets, but the main issue occupying our agenda - like all the developing economies - has always been the policies of the United States.

The policies of the United States took the lead in the most important economic developments of the last year. Trump, the 45th President of the United States, did not hesitate to take political steps that will make him mentioned most often since 2016, when he took office, and he levied on additional customs duties on steel and aluminum imported from the People's Republic of China. As a result of the retaliating actions of China against this step, the markets were alarmed about a trade war. All American and Asian-Pacific stock exchanges were adversely affected from these developments. While the Shanghai composite index completed the year with about 24% depreciation, Nikkei decreased 12% in value. While the US stock exchanges also completed the year with a similar outlook, the annual loss of Dow Jones and the S&P 500 index was approximately 3%. In addition to these developments, the withdrawal of US from the nuclear deal with Iran and the re-commissioning of sanctions, which were released in 2015, caused oil and commodity prices to fluctuate last year. The US Federal Reserve System (FED), which is a very important actor for global markets, continued monetary tightening, i.e. balance sheet reduction, in 2018, and increased the policy interest by 25 basis up to 2.25-2.50%. Although FED seems to continue to withdraw dollar liquidity in the markets by planning a balance sheet reduction of 50 billion dollars each month during 2019, FED may not be able to increase the interest rates as much as expected in the following year due to concerns about global growth. Although the dollar index experiences a fluctuating course during the year due to these developments, it completed the year horizontally.

The Central Banks of the developing markets, which will be most affected by the strong and costly dollar, have increased the interest rates during the year in order to protect themselves from the exchange rate shock. Besides Turkey, various countries such as India, Argentina and Mexico have followed interest rate increase policies at various proportions. China, the world's second largest economy, has been giving slowing down signals in a controlled manner; while there are downward revisions especially in key indicators such as growth and domestic consumption, the recession in loan expansion does not fall of the map. China's growth in 2019 is estimated as 6%. The World Bank announced its global growth forecast as 2.9% for 2019, and the IMF predicts the volume of international trade to slow down in 2019.

The hot topic in Europe this year will be the leaving process of Britain from the European Union as it was in the last year. Brexit, one of the biggest cutting loose cases in history, will be voted in the parliament during the first weeks of 2019 and the necessary steps will be taken according to the decision taken. For the European Union countries, Italy and its budget balance, and the economic developments of Portugal and Spain will be closely followed. The European Central Bank (ECB) is expected to maintain its decision to stay away from the interest rate hike policy. Parallel to the global economic trends, there are slowing down signals in Europe. It is expected that Germany, the locomotive of the European economy, will grow by 1.5% in 2019, and exports will expand by 2.8%, thus displaying a performance lower than the previous years. Together with these recession signals, the political structure of Europe becomes more conservative. Although there is a European picture with uncertainties, the Euro-Dollar parity will move a little bit upwards as a result of the steps of the ECB.

In Turkey, we left behind a very active year. We have started some initiatives to protect our borders and the interests of our country with the Olive Branch operation. Then, we had a hard summer period with the priest Brunson case and the tension between the US and us, but we saw a market that started to calm down during the end of September through the strict monetary policy steps of the CBRT, which created question marks from time to time about the timing. The USD/TRY exchange rate, which started the year at 3.7, saw the level of 7.2 in August but closed the year at 5.3 level. By taking the policy rate from 12% to 24% and through the conciliation steps with the West, the excessive volatility in Turkish assets has given its place to calmness. Although domestic consumer inflation saw the 25.24% level in October, which was the highest level in the last fifteen years, it started to stabilize after the New Economic Plan announced and the steps of the CBRT. Producer prices have peaked and then stabilized again depending on the exchange rate fluctuations and the performance of the precious metals. If the uncertain course of exchange rate continues in the upcoming period, it will turn the balance of payments in our favor, however it will suppress our growth rates by triggering inflation.

The increase in employment, which is one of the areas we need to give importance for 2019 will be possible through policies that support growth. Although the dilemmas in front of the policymakers lead us to predict a growth below our potential during the first half of 2019, we undoubtedly expect a recovery starting from the second half. We predict to close the year close to the targets of the CBRT again especially on the inflation side.

When we look at all of its components, we are aware that the upcoming year will not be an easy year for us. While local elections and budget discipline will come to the forefront, we must not overlook the effect of exchange rate volatilities on private sector balance sheets. All our attention abroad will be on China which has growth concerns, on the United States which gives slight recession signals, and on the European Union which has a busy Brexit agenda.

In 2019, we will see together how the banking sector, which is one of the most critical sectors of the national economy, will be the life line for other sectors. Having the vision of providing world class service to all of its Shareholders, Nurolbank will manage this process in the most efficient way with the awareness of its duty and responsibility. Our Bank will continue to create the trust environment by maintaining its stable growth.

I would like to thank personally and on behalf of our Board of Directors and our shareholders to all our financial partners for their trust in us and also all our employees who provided their full support during this challenging and adventurous year. I wish a year during which we will increase our success and strength, share the honor and pride, and achieve new horizons together once again.

Ziya Akkurt
Chairman of the Board

MESSAGE FROM GENERAL MANAGER

Dear Shareholders, Customers and Business Partners,

While leaving behind a year with intense economic fluctuations, we continued to move forward and reach for the better by going beyond ourselves with our management philosophy that reflects our fighting spirit, and our professional and dynamic team, in order to make you happy even in the most challenging conditions.

In 2018, our Bank became the second Turkish investment bank rated by the international rating agency Moody's and whose reports were disclosed to public. Undoubtedly, we consider the second rating we obtained after JCR a very important development to increase our recognition in local and foreign environments. We will continue to manage our investment banking which we created with expertise, experience and energy in accordance with the principles of profitability and sustainability and to have our performance certified by international organizations.

According to December 31, 2018 data, the Capital Adequacy Ratio of our Bank is 15.24% and the Equity profitability ratio is 35.01%. We increased our interest income by 69% by creating the 48% growth rate in our credit volume in areas with high added value. Our profit before tax increased by 16% compared to the previous year and was realized as 83,435 million TL. In addition, our Bank issued debt instruments amounting to a total of 2,396 million TL during the year at competitive prices.

We continue to look at the future with hope as a result of the performance and achievements of our Bank in 2018. While this excitement which we share with our employees increases our strength and stability, it also motivates us to achieve new successes.

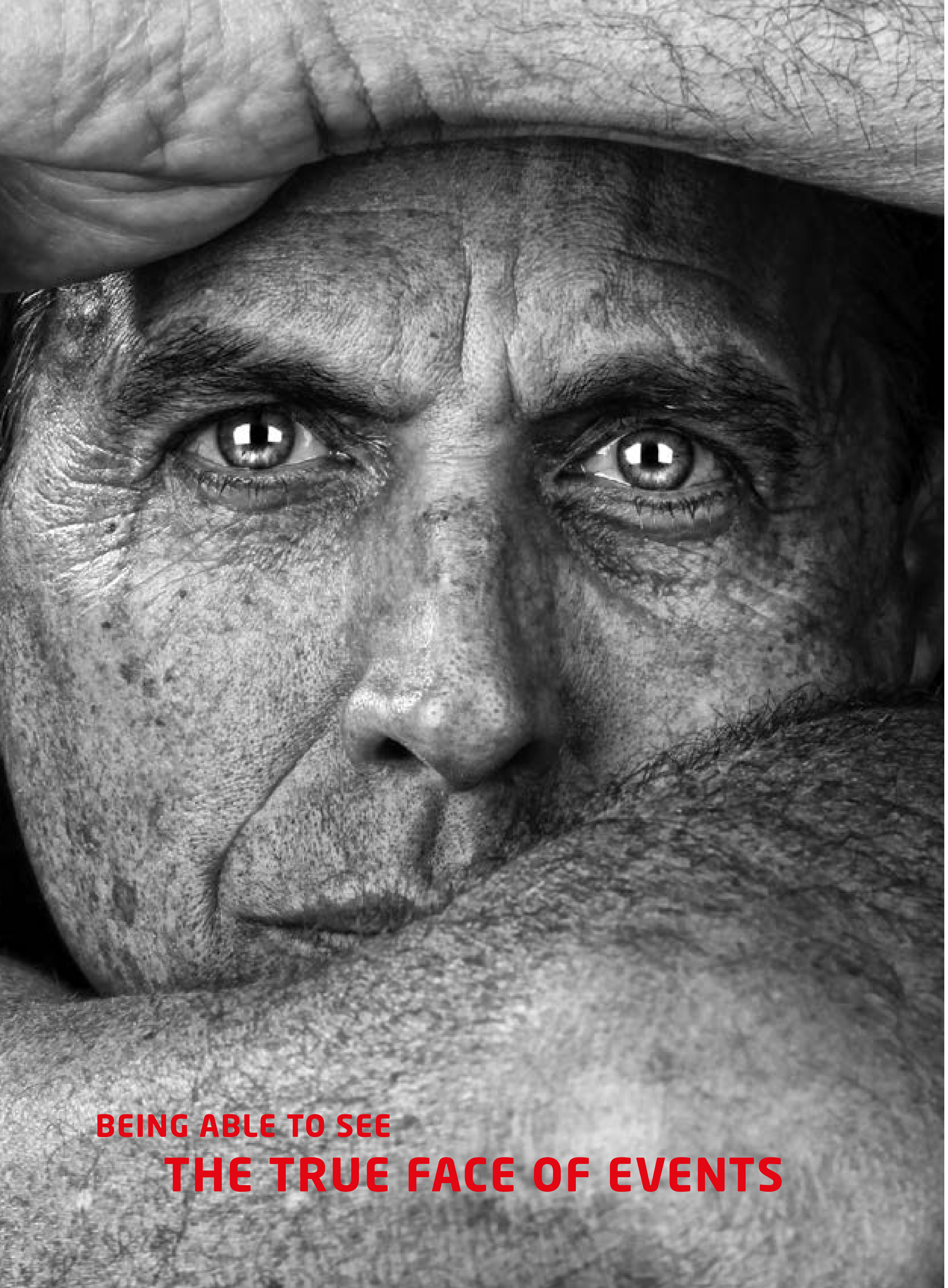
While strengthening our relations day by day with our customers whose lives we touched without compromising our corporate identity and values, we are steadily moving towards increasing our product range and financial solutions pursuant to the needs. For us, success is to challenge ourselves, to overcome all the difficulties howsoever great they may be, to know progressing under any conditions with a compliant and disciplined teamwork, and even going one step further by creating our own terms and standards.

As Nurol Investment Bank, the trust we see on the faces of our customers as a result of all these is the most valuable investment for us... With this awareness and responsibility, we will march forward with a stronger and more determined manner, and we will continue to stand by you in the new period to please you once again with your investments.

I would like to thank all our employees for their contributions.

Best regards,
Özgur Altuntaş

Özgur Altuntaş
Board Member and General Manager

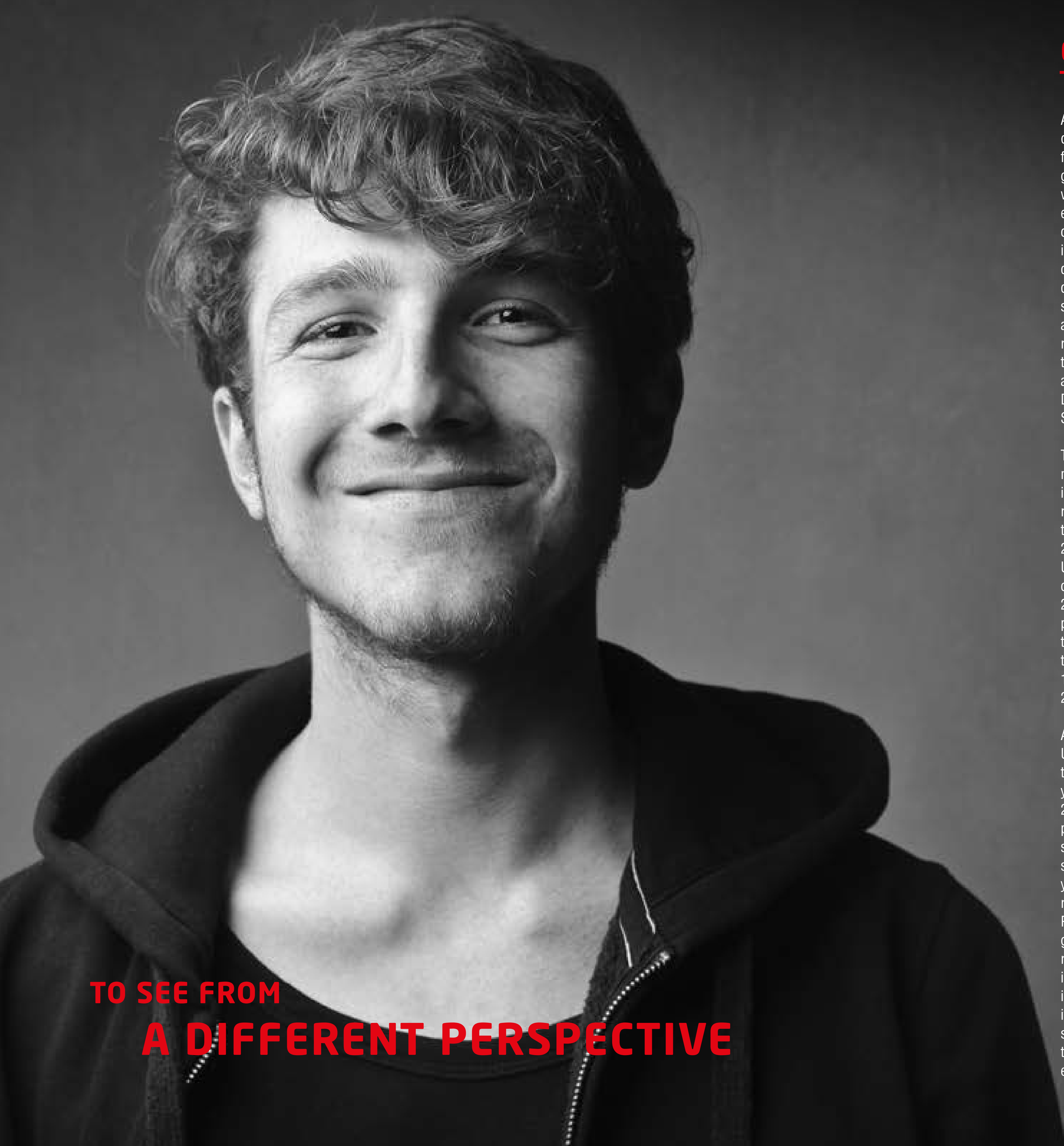


GLOBAL ECONOMIC EVALUATION

The Organization for Economic Cooperation and Development (OECD) stated that we have entered a period where the global growth has been weakened and it kept its growth forecast for 2018 constant at 3.7% despite the slowing growth of some countries in Europe and Asia. However, it decreased its growth expectations of 3.5% for 2019 and 3.6% for 2020 by 0.2 and 0.1 points, respectively. January revision of the IMF's global economic outlook report reveals that global growth is expected to be 3.5% for 2018 and it is expected to be 3.5% for 2019, 0.2 points below its forecasts in October, and to recover slightly with 3.5% by decreasing 0.1 points for 2020. Continuously decreasing growth rates in the world's leading economies and the temporary slowdowns in the growth of developing countries are stated as the cause of the decrease in the forecast rate. The growth rate expectations for the Euro Area were revised downwards for 2019 due to negative developments in Germany, France and Italy. The 2019 growth forecast of 1.5% for the United Kingdom may change due to the Brexit voting process. There has been no change in growth expectations for the US; a slowdown is expected in growth for 2019 and 2020.

The US economy's growth in the third quarter of 2018 decreased to 3.4%, according to the report of US Ministry of Commerce published on December 21. The unemployment rate was 3.9% in December and it increased from 3.7%, the lowest level in the last 49 years. The number of unemployed was 6.3 million. Non-agricultural seasonally adjusted employment, which reached 150.263.000 persons, increased by 2.6 million people since December 2016 and increased by 1.8%. In December, annual inflation fell by 0.3% compared to the previous month and reached 1.9% in line with the expectations; the biggest share in this decrease was the decline in energy costs, and the core inflation was measured as 2.2%. FED increased its policy rate by 25 basis points in March, June and September during this year and increased the interest rate 3 times and it finally raised it to 2.25-2.50% through the interest rate hike in December. 10-year US Treasury bond interest rate, which started 2018 at 2.46%, started to rise up to 3.23% at the beginning of November and closed the year at 2.69% level.

The ongoing Trade War started by the US President Donald Trump by imposing 25% and 10% additional customs duties on several products in order to close the gaps against the US with the countries with which the US has high trade volume, and to support domestic production, caused EU, Russia, China, India, Canada, Mexico and Norway to submit their complaints to the World Trade Organization; and the complaints were based on the claim that additional customs duties are unlawful. Then, the US administration imposed 25% additional customs duty on certain Chinese products on August 23. It is certain that the tension experienced by the US with its close allies lead to an uneasiness in the world economies and Trump's statement of "We reject the globalization doctrine" increased these concerns. A new agreement, called as USMCA, was adopted as a result of pressure from the US president for concluding a more current and more limited agreement instead of NAFTA agreement ongoing since 1994 with neighboring countries Canada and Mexico. Following the meeting with Chinese President Xi at the G20 meeting, Trump decided to postpone new additional duties which he would initiate on January 1.

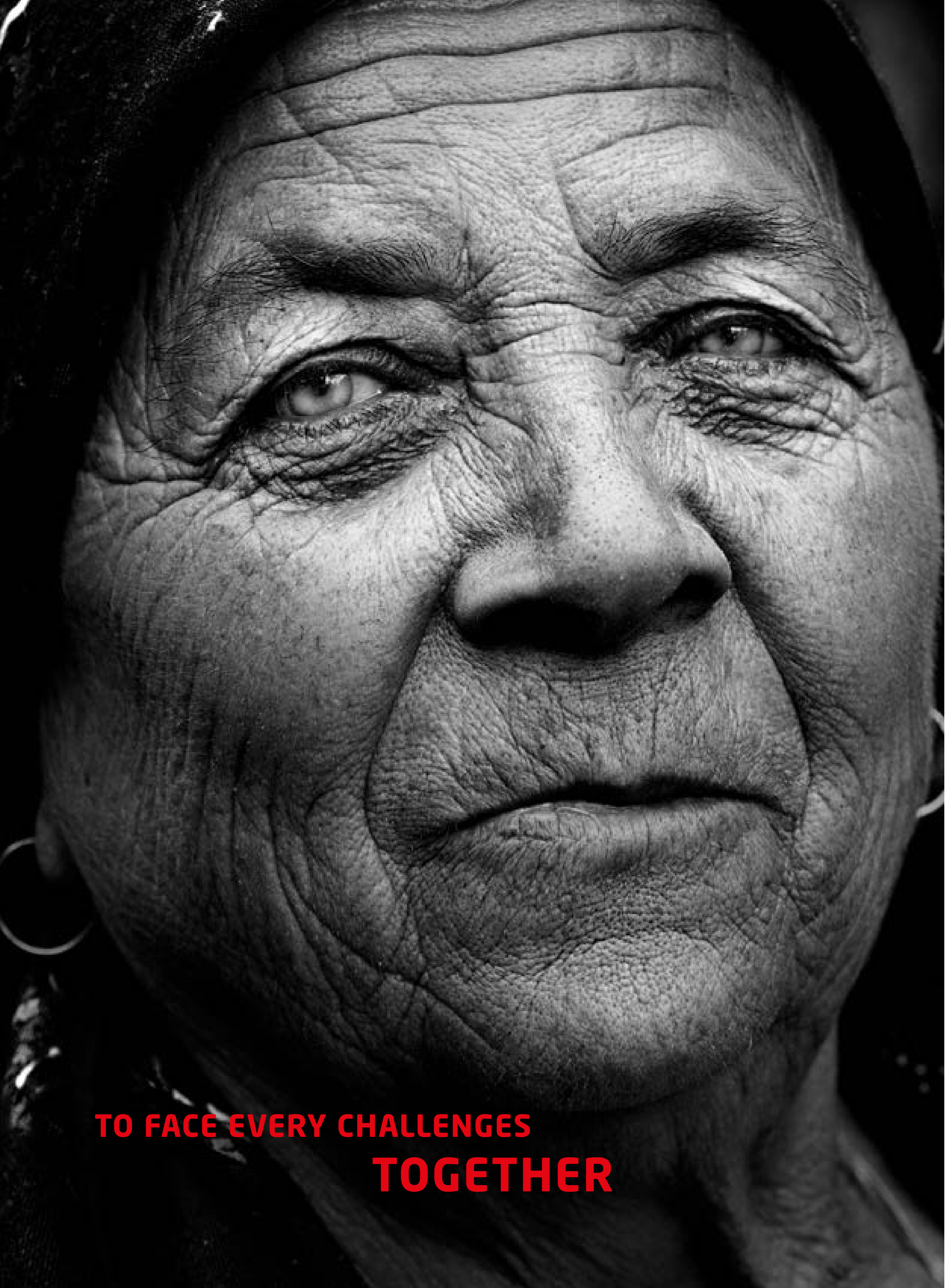


GLOBAL ECONOMIC EVALUATION

According to the Eurostat's report, Eurozone economy grew by 0.2% quarterly during the fourth quarter of 2018. Growth forecast for 2018 was 1.9%. The growth rate for 2017 was 2.4% and 2019 forecasts for the growth were revised to be 1.3%. The expectation for 2020 is at 1.6% level. Although growth expectations for the Eurozone are expected to be 1.8% for 2018, IMF expects that the growth will slow down by 1.6% in 2019 with a decline of 0.3 points compared to the previous report. The employment, which increased by 1.6% in 2017, slowed down in 2018 and increased by 1.4%. The current surplus for the third quarter was calculated as 76.2 billion EUR in the Eurozone. Annual inflation was 1.7%, and the expectation is 1.4% for 2019 and for 1.5% for 2020. Growth in Germany declined to 1.5% especially in the second half of the year due to the slowdown in exports and the decline in consumer expenditures in 2018. Although the weak growth data in France rose in the summer period, it continued weak in the last quarter, especially due to the protests in the country and decreased by 0.7 points compared to 2017 and grew by 1.5%. The European Central Bank (ECB) reduced its asset purchase program, which has been maintained as 30 billion EURO until September, to 15 billion EUR at the end of September, which it stated previously, and this program was finished at the end of December. The ECB did not make any change in its policy interest at its meeting on December 13. The EUR/USD parity, which started the year 2018 at 1.2059 level, peaked at 1.1777 on September 20 and closed the year at 1.1467 level.

The United Kingdom's economy achieved a 1.4% growth in 2018, and household expenditures and mainly government expenditures had an effect on the growth. In 2018, the Bank of England (BoE) increased its interest rate for the second time after the 2008 financial crisis and increased its policy rate from 0.5% to 0.75%. In the statement made by the bank, it was stated that they will continue to increase the rate in case the macroeconomic forecasts are correct. The annual inflation rate for 2018 was announced as 2.5% and the inflation forecast was 2.2% for 2019 and 2.1% for 2020. GBP/USD parity which was 1.3590 at the beginning of 2018, declined to 1.2477 level on December 11 and closed the year at 1.2754 level. The most intense period after the Brexit voting was experienced in 2018, and the Prime Minister May submitted the most comprehensive plan regarding the Brexit to the public on July 12, during the process ongoing with prepared plans and resignations, and she stated that this plan was in compliance with the roadmap considered by the EU for the Brexit. It was planned to vote for the final plan established after May's meeting with the EU in the parliament on December 11, however the decision was postponed at the last moment. The Brexit will take place on March 29, 2019 regardless of the existence of an agreement, and the United Kingdom will officially leave the EU.

Although the Chinese economy has tried to reduce the effects of the additional customs duties of the US and slow loan growth through fiscal stimulus, it lost pace in 2018 growth. China has recorded the slowest growth rates since 2016. According to the IMF's World Economic Outlook Report, the year-end economic growth was estimated as 6.6% for 2018 and 6.2% for 2019. Inflation realized as 2.0% annually. According to the OECD report, China is demonstrating signs of slowdown in industrial production, profits and revenues, and also the reduction in infrastructure expenditures leads to a slowdown in the economy. Price per barrel of Brent crude oil rose up to 86.29 USD in October after starting the year 2018 at 66.57 USD, following a severe downtrend after this level, and closing the year at 53.80 USD level. The decline in oil supply in Iran due to the effect of the decision of the US to restart the sanctions it imposed on Iran at the beginning of August caused the prices to increase. US President Trump's opinion on canceling the privilege right, which provides exemption from US laws, granted to OPEC member states by stating that OPEC had caused the prices to raise by 82% as a result of its decision on restricting the production in 2016, and punished consumers and intervened in the free market, and in addition, the serious slowdown of oil production in Venezuela were effective in the price increases. OPEC started to increase production in order to reduce prices with the decision it took in June, thus meeting the loss to be caused by Iran. The fact that the US grants exemptions for some countries against Iran sanctions were effective in the decline of oil since October. The fact that the US increased its oil production also contributed to the decline in oil prices, and the fall in prices is expected to slow down oil production next year.



TURKISH ECONOMY

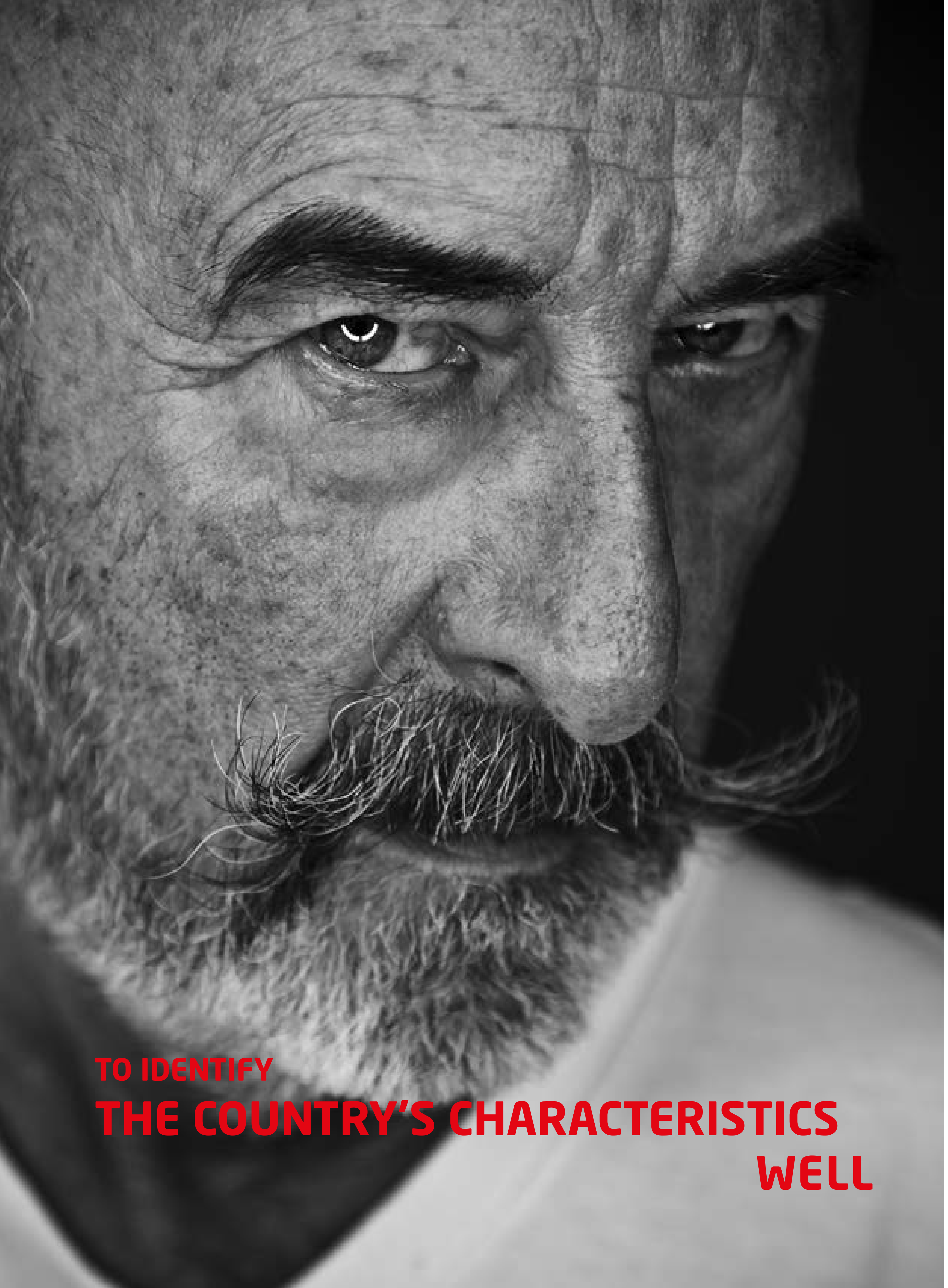
Turkish economy grew by 1.6% in the third quarter of 2018 while the average forecast level was at 1.7% level. While the value added of the construction sector decreased by 5.3% as the chain volume index compared to the third quarter of 2017, the value added of the industrial sector increased by 0.3% and the value added of the services sector increased by 1%. While the central government budget had a deficit of 6 billion TL in September 2018 and 5.4 billion TL in October, it has a surplus of 7.6 billion TL in November. During the January-November period of 2018, 54.5 billion TL deficit was recorded and budget revenues increased by 20.2% compared to the same period of the previous year, and on the other hand non-interest budget expenses increased by 24%. While the Organization for Economic Cooperation and Development (OECD) estimated that Turkish economy grew by 3.3% in 2018, it forecasts that it will shrink by 0.4% in 2019, and expects that it will achieve the growth of 2.7% again in 2020. The expectations of the International Monetary Fund (IMF) are that there will be a shrinkage in 2019 due to monetary tightening policies and external financing challenges and that the economy will recover slowly in 2020.

The unemployment rate increased to 11.4% in September and the unemployment rate between the young population increased by 1.6 points to 21.6% compared to the same period of the previous year. The number of employed persons increased by 266 thousand persons compared to the same period of the previous year and reached 29 million 63 thousand people, and the employment rate decreased by 0.1% and became 47.8%. Seasonally adjusted employment decreased by 81 thousand persons and became 28 million 797 thousand persons compared to the previous period and the employment rate decreased by 0.1 points and became 47.4%.

Current account deficit shrank by 41.6% annually throughout 2018 and declined to 27.6 billion USD. Current account deficit decreased by 6.3 billion USD in December compared to the same month of the previous year and was realized as 1.4 billion USD. While the current operations account excluding gold and energy had a deficit of 2.5 billion USD in the same period of the previous year, it had a surplus of 2.5 billion USD this year. Foreign trade deficit decreased by 5.9 billion USD compared to the same month of the previous year and became 1.7 billion USD. Net revenue from the travel item increased to 898 million USD. Direct investments rose to 9.5 billion USD in 2018, which was 803 million USD in December. While 3 billion USD net capital outflow was observed in portfolio investments during 2018, a net outflow of 1.8 billion USD was recorded in December, and a net inflow of 518 million USD was recorded in other investments. 860 million USD increase was observed in official reserves in December.

The CPI declined to 20.30% level by the end of 2018 and the 2003-based index, which was 25.24% annually in October, dropped significantly from its highest level ever. CPI decreased by -0.4% in December for the second time together with November. The decrease in oil and import prices, the weakening of domestic demand and the tight monetary policy stance in addition to the tax discounts were effective in the fall of inflation during the last quarter. The D-PPI, which rose due to the rising costs as a result of the depreciation of TL, increased by 33.64% in 2018 and experienced an annual 3-month downtrend after the record level of 46.15% in September.

At its meeting on April 25, CBRT Monetary Policy Committee (MPC) pointed out that the rise in import prices poses a risk to inflation expectations and increased the interest rates to 16.5% on May 23 through the increase in risk in the monetary tightening policy it started by increasing the lending rate from 12.75% to 13.5%, and decided to increase the interest rate from 16.5% to 17.75% at its meeting on May 23. At its meeting on September 13, the MPC decided to implement a strong monetary tightening program to support price stability and increased the one-week repo auction interest rate from 17.75% to 24%. On May 7, the CBRT reduced the upper limit of foreign exchange allowance within the scope of reserve option mechanism from 55% to 45%, and on August 6, the upper limit was lowered again to 40%. With the press announcement published on August 13, Turkish lira required reserve ratios were reduced by 250 basis points in all maturity segments and by 400 basis points in maturities up to 1, 2 and 3 years for foreign currency required reserves. CBRT stated that it will continue to use all the instruments it has in order to ensure price stability.



TO IDENTIFY THE COUNTRY'S CHARACTERISTICS WELL

TURKISH ECONOMY

The international credit rating agency Moody's dropped the credit rating of Turkey from "Ba1" to "Ba2" on March 8, and turned its rating outlook from "negative" to "stable", and stated that the increase in external shock due to high current account deficit and external debt as well as political risks has been a factor in rating change. On August 17, Moody's announced that it dropped the country rating from "Ba2" to "Ba3" and turned its outlook into "negative", and it was stated that the rating shall be positively affected in case of a decrease in inflation, an effective economic plan and reduction in current account deficit. Moody's also reduced the country ceiling rating of Turkey from B1 to B2 for long-term foreign currency bank deposits claiming that the intervention risk of the government to prevent the withdrawal of foreign currency deposits had increased before the last week of September, and afterwards it reduced the long-term time deposit rating of 9 Turkish banks from B1 to B2. S&P reduced the rating of Turkey to "BB-" on April 30 due to the inflation risk, depreciation of the TL and external position risk and turned its outlook from "negative" to "stable", and on August 17, it reduced its rating again from "BB-" to "B+" due to the continuation of the same risks, and confirmed its outlook as "stable".

While the USD/TL parity was at 3.7667 level at the beginning of 2018, high progress of USD in international markets which started in April and still continuing and the increasing political tension between Turkey and the US caused a very serious rise in the exchange rates and reached 7.2393, the highest level, on August 13. The exchange rate fell below 7 as a result of the measures taken by the CBRT regarding the Turkish lira and foreign currency liquidity management, and did not exceed this level until the end of the year and closed the year at 5.2883 level. The EUR/TL exchange rate, which started 2018 at 4.5421 level, reached 7.8533 on 13 August by making a historic peak and its closing level on December 31st was 6.0640. GBP/TL parity started the year at 5.1189, saw 9.1003 level due to the depreciation of TL on August 13, and it closed the year at 6.7447 level. While the compound interest of the increasing 2-year benchmark bond started 2018 with 13.05%, it peaked at 23.39% in August and closed at 18.83% at the end of the year.

The BIST-100 index followed a parallel course to the fluctuations in the USD/TL exchange rate in 2018, and its course which was at 117,524.20 at the beginning of the year hit rock bottom on August 16 due to the serious depreciation in TL which occurred in a short while, and reached 87,13.21 level, and it recovered slightly at the end of the year and reached to 91,270.48 level. With this decline, BIST-100, which increased by 47.6% in 2017, depreciated by 20.9% in 2018.

The solutions produced for the problems in the economy were presented in general terms with the title of Rebalancing-Discipline-Change with New Economic Program (NEP) by the Ministry of Treasury and Finance in order to reduce the harms of adverse developments in Turkish economy and the increasing risks. Various objectives have been described within the NEP as the main objective from decreasing the inflation through strict monetary and fiscal policies to savings measures and from the contribution to the financial structure of the banking sector to reducing the current account deficit. It is expected to reduce the inflation to one digit in 2020 with additional measures to be taken through the implementation of the NEP.

OUR MANAGEMENT AND COMMITTEES

Board Members

1 Ziya Akkurt
Chairman of the Board

2 Mehmet Oğuz Çarmıklı
Deputy Chairman of the Board

3 Mehmet Mete Başol
Board Member

4 Dr. Eyüp Sabri Çarmıklı
Board Member

5 Gürhan Çarmıklı
Board Member

6 Ahmet Kerim Kemahlı
Board Member

7 Yusuf Serbest
Board Member

8 Ahmet Şirin
Board Member

9 Özgür Altuntaş
Board Member and General Manager

BOARD MEMBERS

Ziya AKKURT
Chairman of the Board

Ziya Akkurt, who is a graduate of Middle East Technical University, Department of Public Administration, started his career at Interbank in 1983. Chronologically, he worked at BNP-AK-Dresdner Bank Loans and Marketing Department and at Osmanli Bankasi / Banque Paribas / Paris International Banking Department. Mr. Akkurt, who started to work at Akbank Corporate Banking department, served in various departments in Akbank and worked as the CEO between 2009-2012. Between 1996 and 2012, he served as the Board Member responsible for loans at BNP-AK- Dresdner Bank, Akbank A.G, BNP-AK-Dresdner Leasing and Ak Yatirim A.S. Ziya Akkurt has been serving as the Chairman of the Board of Nurol Investment Bank Inc. since February 2016.

Mehmet Oğuz ÇARMIKLI
Deputy Chairman of the Board

M. Oguz Carmikli is a graduate of İstanbul State Engineering and Architecture Academy, Yildiz Engineering High School, Department of Civil Engineering. M. Oguz Carmikli served as a senior manager in Nurol Construction Company, which turned into Nurol Insaat ve Ticaret A.S. afterwards and which is the first company of Nurol Companies Group. He has been serving as the Deputy Chairman of the Board of Nurol Investment Bank since 1999 and a member of the Bank's Remuneration Committee since 13.12.2011.

Dr. Eyüp Sabri ÇARMIKLI
Board Member

He graduated from the University of Essex, London, Department of Political Sciences in 1997. He continued his academic career in the University of Westminister, London in 2001 with a Master's Degree in International Relations and Political Theory. In 2002, he completed his Master's Degree in University of London, Birbeck College, in the field of Contemporary History and Politics. In 2011 he completed his Political Sciences PhD in Westminister University, London. He started his professional career as a director in Riyadh agency of Nurol Insaat Ticaret A.S. between 1991-1992. He worked as the Head of Land Development Department at Nurol Insaat Ticaret A.S. between 1992 and 1993. He served as the General Manager of Nurol Pazarlama ve Dis Ticaret A.S. between 1993 and 1994. He has been a member of the Board of Nurol Holding A.S. since 1994. At the same time, he was appointed as a Board Member of Nurolbank on September 2016.

Ahmet Kerim KEMAHLI
Board Member

He is a graduate of Oxford, St. Edward's School. He completed the Business Organization program at Heriot-Watt University in Edinburgh. Mr. Kemahlı, who started his career in 1990 at West LB, worked at Finansbank, Abalioglu Holding and Celebi Holding, chronologically. He has been the Finance Coordinator of Nurol Holding since 2010 and the Board Member of Nurol Investment Bank since 2011 and a Member of the Audit Committee since 2014.

Mehmet Mete BAŞOL
Board Member

He graduated from the University of Arizona, Department of Economics with a B.S degree. Mr. Basol, who started his career in 1984, served as Executive Director at the Boards of Interbank, Bankers Trust, Deutsche Bank, and Public Banks, chronologically. He still serves as a Board Member and Consultant in various companies. He has been a Member of the Board of Directors and the Corporate Governance Committee of Nurol Investment Bank since August 2014.

Gürhan ÇARMIKLI
Board Member

He graduated from Bilkent University Faculty of Economics and Administrative Sciences, Department of Economics, and Faculty of Business Administration, Department of Business Information Management. He has been a Board Member of Nurolbank since May 2016.
He started his career in Nurol Holding Finance Department in 2003. He worked in the Accounting and Finance departments of FNSS A.S. between 2007 and 2008. He worked at Nurol Holding A.S. Finance Department between 2008 and 2011. He has been a Member of the Board of Nurol Insaat A.S. since December 2001.

BOARD MEMBERS

Ahmet ŞİRİN
Board Member

He graduated from Ankara University, Faculty of Political Sciences. He received his Master's Degree from Leeds University. Mr. Sirin, who began his career at the Inspection Board of the Ministry of Finance in 1980, served as Head of Department in Revenue Administration, Deputy Undersecretary at the Ministry of Finance, Finance Director at the Ministry of Public Works and Settlement, Vice Chairman at BRSA and Chairman Advisor at BRSA, chronologically. He has been serving as the Board Member - Chairman of Audit Committee and Chairman of Corporate Governance Committee of Nurol Investment Bank Inc. Since July 2013.

Yusuf SERBEST
Board Member

He graduated from Istanbul University, Department of Business Administration. Mr. Serbest, who started his career in the Treasury Department of Töbank T.A.Ş. in 1989, worked in Nurol Menkul Kıymetler A.S., served as the Deputy Chairman of the Board of ISE and Member of the Executive Board of Aydin Orme San. ve Tic.A.S. He has been a Member of the Board of Nurol Investment Bank since 2001.

Özgür ALTUNTAŞ
Board Member and General Manager

He graduated from Istanbul Technical University, Department of Management Engineering. Mr. Altuntas, who started his career in Istanbul Bankers Trust in 1993, worked as the Director of Developing Markets and Head of Turkey Region in Amsterdam, Bucharest and London, Garanti Bankasi, AMEX Bank, Credit Suisse and Morgan Stanley, respectively. Mr. Altuntaş, who returned to Istanbul in August 2011, served as Chief Deputy General Manager in Royal Bank of Scotland for two years until June 2013.
He has been a Board Member and General Manager at Nurol Investment Bank since September 16, 2013.

Senior Management

1 Özgür ALTUNTAŞ
Board Member and General Manager

2 Zafer Babür HAKARAR
Chief Deputy General Manager of Treasury Department

3 Dr. Murat ÇİMEN
Chief Deputy General Manager of Loans Department

4 Ahmet Murat KAVURGA
Deputy General Manager of Operations and Information Management Department

5 Yeliz BİLGİN
Deputy General Manager of Investor Affairs Department

6 Semih Subutay NEZİR
Deputy General Manager of Audit and Compliance Management Department

7 Cenk ATMACA
Deputy General Manager of Financial Institutions Department

SENIOR MANAGEMENT

Özgür ALTUNTAŞ
Board Member and General Manager

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Zafer Babür HAKARAR
Chief Deputy General Manager of Treasury Department

He graduated from Boğaziçi University, Department of Mechanical Engineering. Mr. Hakarar, who started his career as a specialist at Finansbank in 1995, worked as the Finance and Business Development Director at Credit Europe and Tosyalı Holding in Amsterdam respectively. Z. Babur Hakarar has been serving as the Chief Deputy General Manager responsible for Treasury in Nurol Investment Bank Inc. since September 2013.

Dr. Murat ÇİMEN
Chief Deputy General Manager of Loans Department

He graduated from ITU, Department of Civil Engineering. He received his master's and doctorate degrees from Bogazici University. Mr. Cimen, who started his career at Interbank in 1996, served as the Senior Specialist, Investment Banking Department Head, and Deputy General Manager responsible for Investment Banking at Nurol Investment Bank, Project Finance and Financial Leasing Department. He has been serving as the Chief Deputy General Manager responsible for Loans since 2017.

SENIOR MANAGEMENT

Ahmet Murat KAVURGA
Deputy General Manager of Operations and Information Management Department

He is a graduate of Marmara University, Department of Foreign Languages. Mr. Kavurga, who started his career as a Senior Officer in Adabank in 1986, worked at Chase Manhattan Bank Turkey, Garanti Bankasi Romania and Credit Europe Bank Moscow, respectively. He has been serving as the Deputy General Manager responsible for Operations and Information Management since February 2014.

Semih Subutay NEZİR
Deputy General Manager of Audit and Compliance Management Department

He is a graduate of METU, Faculty of Economics and Administrative Sciences, Department of Economics. Mr. Nezir, who started his career at Interbank in 1986, worked as the Section Head of Credit Tracking and Monitoring at General Directorate of Esbank. He has been working in Nurol Investment Bank since 2001 and serving as the Deputy General Manager responsible for Audit and Compliance Management since March 2014.

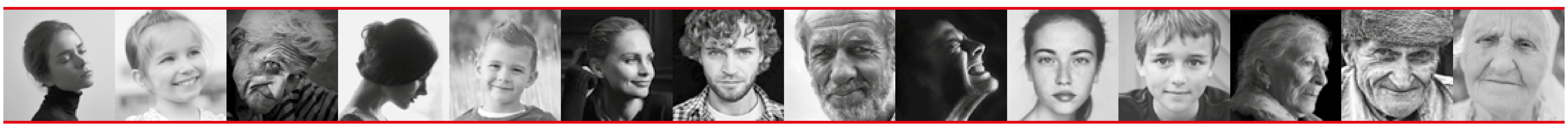
SENIOR MANAGEMENT

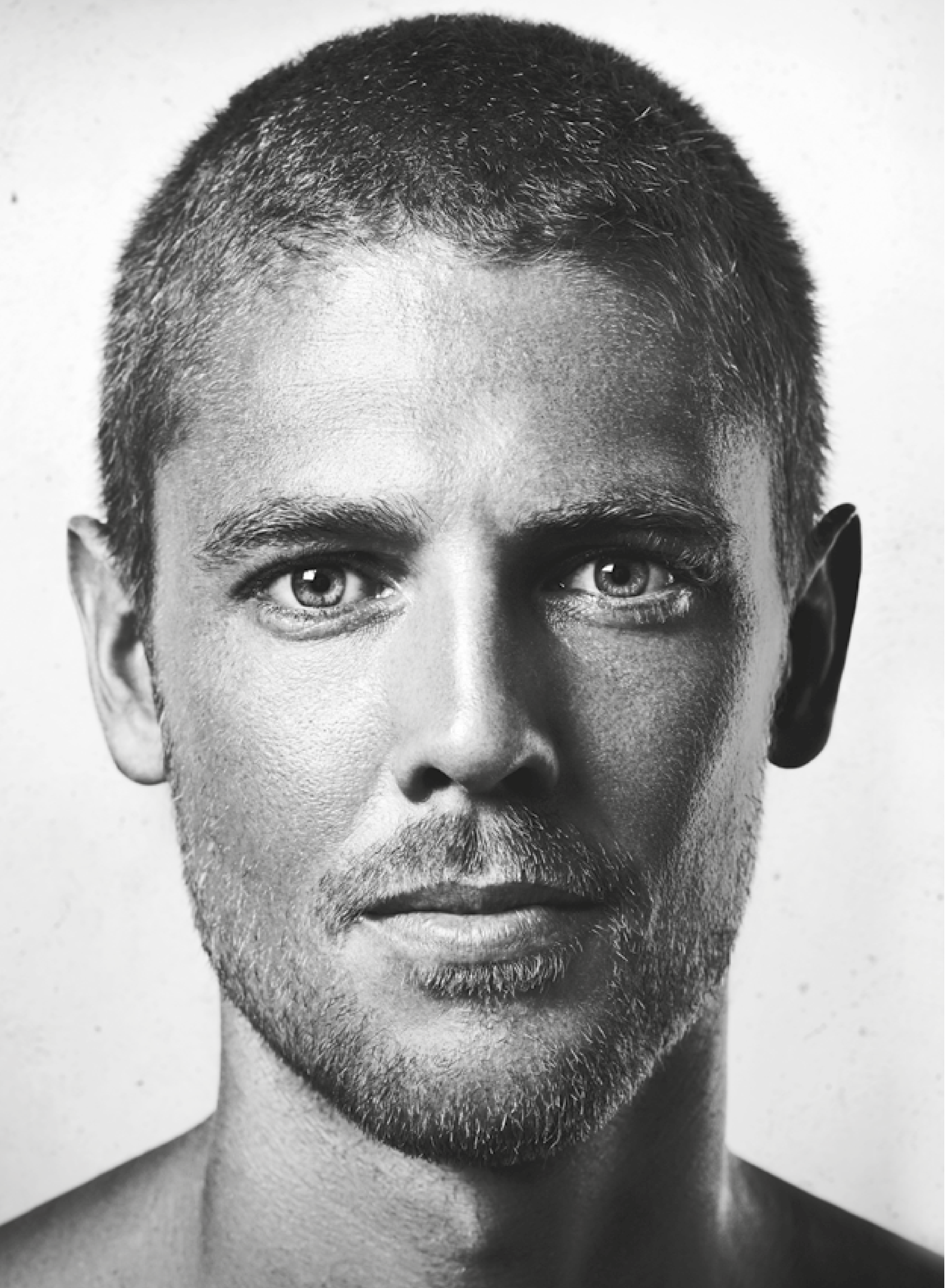
Yeliz BİLGİN
Deputy General Manager of Investor Affairs Department

She graduated from Marmara University, Department of Business Administration. Ms. Bilgin, who started her career in the Treasury Department of Finansbank in 1998, began to work in the Department of Treasury and Financial Institutions at Nurol Investment Bank in 2007 and she has been serving as the Deputy General Manager of Investor Affairs Department since 2015.

Cenk ATMACA
Deputy General Manager of Financial Institutions Department

He is a graduate of Ankara University, Faculty of Political Sciences, Department of Public Finance. Mr. Atmaca, who started his career in the Foreign Affairs Department of Finansbank in 1992, worked in Fiba Bank between 1998 and 2000. He worked as the Deputy General Manager in Foreign Affairs Department at Credit Europe Amsterdam between 2000 and 2008. He worked as Dubai General Manager at Credit Europe Bank between 2008 and 2016. He has been working as the Deputy General Manager of Nurolbank Financial Institutions Department since 2018.





BOARD COMMITTEES

Corporate Governance Committee

The Committee was established to monitor and guide the Bank's corporate governance practices pursuant to Article 22 of the Banking Law No. 5411. It operates in accordance with the provisions of the "Regulation on the Principles of Corporate Governance of Banks", which came into force after being published in 01.11.2006 dated Official Gazette no. 26333. The Committee reports to the Board of Directors. It convened 2 times in 2018 to monitor the Bank's compliance with corporate governance principles, to carry out improvement activities and to make suggestions to the Board of Directors.

Position	Name and Surname	Main Duty
Chairman	Ahmet ŞİRİN	Board Member
Member	Mehmet Mete BAŞOL	Board Member

Remuneration Committee

The Committee reports to the Board of Directors. It was established with 13.12.2011 dated Board Decision No. 449 pursuant to the provision of "A Remuneration Committee consisting of at least two members shall be established in order to monitor and audit the remuneration practices on behalf of the Board of Directors" in the "Regulation on the Principles of Corporate Governance of Banks" published by the BRSA in 01.11.2006 dated Official Gazette no. 26333. The Remuneration Committee convened once in 2018 to make remuneration suggestions to the Board of Directors.

Position	Name and Surname	Main Duty
Chairman	Mehmet Oğuz ÇARMIKLI	Deputy Chairman of the Board
Member	Ahmet Kerim KEMAHLI	Board Member

Audit Committee

The Committee was established to supervise the internal control procedures in the Regulation on Internal Systems of Banks published in 11.07.2014 dated Official Gazette no. 29057 and to observe whether the Bank's internal policy and practice procedures approved by the Board of Directors have been complied with and to fulfill the audit and supervision activities of the Board of Directors of the Bank. The Audit Committee convened 18 times in 2018 to make suggestions to the Board of Directors.

Position	Name and Surname	Main Duty
Chairman	Ahmet ŞİRİN	Board Member
Member	Ahmet Kerim KEMAHLI	Board Member

Disciplinary and Personnel Committee

Reserving the mandatory provisions of the Labor Law No. 4857 and the relevant legislation, it was established with the suggestion of the Human Resources Department and the approval of the General Manager to monitor and guide the provisions of the regulation on the responsibilities, terms of service, personal rights and disciplinary procedures of the Bank staff.

The Committee reports to the General Manager in order to determine the degree of defects and possible damages of the transactions and acts required by the disciplinary action of the legislation and disciplinary regulations of the Bank and other legal regulations related to Labor Law. The Committee convenes when necessary under the chairmanship of the General Manager with the participation of the relevant managers and settles the agenda items.

Position	Name and Surname	Main Duty
Chairman	Özgür ALTUNTAŞ	Board Member - General Manager
Member	Dr. Murat ÇİMEN	Chief Deputy General Manager of Loans Department
Member	Ahmet Murat KAVURGA	Deputy General Manager of Operations and Information Management Department

Information Systems Strategy Committee

The Committee reports to the Board of Directors. It operates under the "Communiqué on Principles to be Considered in the Management of Information Systems in Banks" published in 14.09.2007 dated Official Gazette no. 26643. It informs the Board of Directors on strategic compliance in order to take decisions for the management and administration of the legislation/provisions related to Information Systems, identification of the strategic direction and fulfillment of the Information Systems governance purposes, and it was established with 17/06/2008 dated Board decision no. 336 in order to address it at the Board of Directors level as a part of the corporate governance. The Committee convened 5 times in 2018.

Position	Name and Surname	Main Duty
Chairman	Özgür ALTUNTAŞ	Board Member - General Manager
Member	Dr. Murat ÇİMEN	Chief Deputy General Manager of Loans Department
Member	Ahmet Murat KAVURGA	Deputy General Manager of Operations and Information Management Department

Asset and Liability Committee

The Asset and Liability Committee convenes every week under the chairmanship of the General Manager with the participation of Deputy General Managers and the Unit Managers who are involved in activities that may affect the balance sheet. The agenda of the meeting consists of assessing the Bank's balance sheet, fields of operations, activities, general economic data and current political and economic developments, and determining the weekly strategy. It convened 47 times in 2018.

Position	Name and Surname	Main Duty
Chairman	Özgür ALTUNTAŞ	Board Member - General Manager
Member	Zafer Babür HAKARAR	Chief Deputy General Manager of Treasury Department
Member	Recep GÜL	Financial Control Group Manager
Member	Melike BAYRAKTAR	Financial Control Manager

Credit Committee

The Committee reports to the Board of Directors. It was established in accordance with the "Regulation on the Credit Transactions of Banks" published by the BRSA and its working principles were identified within the scope of this regulation. In our Bank, the Credit Committee convenes every week as a general practice, except for exceptional cases.

The Credit Committee presents its opinions to the Board of Directors about the results of the activities carried out by the responsible units and the applications that need to be performed and other issues it deemed necessary for the Bank to maintain its activities in a safe manner. It conveyed 31 times in 2018.

Position	Name and Surname	Main Duty
Chairman	Ziya AKKURT	Chairman of the Board
Member	Mehmet Mete BAŞOL	Board Member
Member	Özgür ALTUNTAŞ	Board Member - General Manager

OUR CODES OF CONDUCT

HUMAN RESOURCES APPLICATIONS

Our Employees Are Cornerstones of Our Achievements

Our hard work, honesty, commitment to our ethical values, and our human resources management approach aiming at continuous improvement in our professional expertise, competence and skills in order to add more value to our customers are the cornerstones of our success.

Performance Management

On the other hand, our performance management system has been developed in order to identify the periodical success standards of our Bank and our employees, to focus on the development of our employees and to reward their successes within the previous operating cycle.

Our performance plans have been rearranged and implemented so as to include concrete, measurable, time-dependent targets, as well as competence and development planning.

Development of Our Employees

Our human resources policy is to ensure that all of our employees will be able to adapt to the development of our Bank, to have a broad vision of investment banking, oriented to provide solutions to the needs of our customers, to ensure the continuity of our quality service understanding and to be open to innovation.

Within this context, we take care to ensure that basic competence and knowledge levels of our employees are maintained at high level, to provide them with training for multiple skills, so that they back up and support each other in critical work flows.

Within the framework of our continuous development approach, our employees were ensured to participate in the necessary trainings and seminars in the required fields in 2017.

During the operating period, our employees were ensured to participate in professional training and certification programs organized by the Banks Association of Turkey, Capital Markets Board and Borsa Istanbul A.S.

As of the end of 2018, the number of employees is 57 and 91% of them are university graduates, and our average age is 37 years. The average seniority year of our bank is 5.53 and the average sector experience of our employees is 11.35 years. 40% of our employees are female employees.

CORPORATE MANAGEMENT CODES OF CONDUCT PRACTICES

Corporate Governance Codes of Conduct Compliance Declaration, transparency and commitment to ethical values have always been the priority of our Bank.

Social Responsibility

Our Regulation on Corporate Governance Codes of Conduct prepared by taking into account the principles of Social Responsibility guides us in conducting all our banking operations.

In all our activities, we act by taking into consideration the benefits of society.

Within the framework of these rules, we are trying to fulfill our social responsibilities in harmony with our employees and all our stakeholders, and we support our employees to be volunteers in their internal and external social responsibility activities.

As we included in our directive on Compliance Policy and Compliance Risks of our Bank, the services offered by our Bank are not qualified to be harmful to public health, public security or environment, and in addition our bank has adopted the same principles when selecting the projects it will finance, and we take care to carry out our activities under light of this principle.

Stakeholders

Our Corporate Governance Committee coordinates the processes of contact with shareholders as determined in our Corporate Governance Codes of Conduct, which was prepared in accordance with the provisions of the Regulation on Banks' Corporate Governance Codes of Conduct published by the BRSA and approved by the Bank's Board of Directors.

In terms of our Shareholders:

- We inform our shareholders in accordance with the principles of public disclosure.

- We enable our Bank to assess the effectiveness of senior management in bank management by ensuring that shareholders, depositors, market participants and the public have a sufficient level of knowledge about the structure and objectives of the bank.

- We provide information about our Bank in a timely, accurate, complete, comprehensible, impartial, easily accessible and equal manner to the public in order to help people and institutions make decisions.

- By the year-ends and in March, June and September, we carry out applications for informing the public by consolidating the financial statements of subsidiaries, jointly controlled partnerships and affiliates with or without credit institution or financial institution nature basing on the Accounting Standards of Turkey.

In terms of our customers:

- We have developed systems and processes open to our customers' wishes, suggestions or complaints to improve our organization and services.
- For these suggestions and complaints, we use our website and private telephone line. We commission and charge the Customer Complaint Line and the Arbitration Board for receiving and finalizing customer complaints.

In terms of our employees:

- We give importance to the development, informing, and participation of our employees in management and we improve our processes in this direction.
- Our in-house information is coordinated and conducted through our in-house information portal, employee meetings, employee satisfaction and opinions survey, performance planning and evaluation processes organized by our Human Resources Department.

Public Disclosure and Transparency

As determined in our Corporate Governance Codes of Conduct, which was prepared in accordance with the provisions of the Regulation on Banks' Corporate Governance Codes of Conduct published by the BRSA and approved by the Bank's Board of Directors, in terms of Bank Management Application Procedures and Principles on public disclosure and transparency issues;

- Equality; It aims at equal treatment to shareholders and stakeholders in all activities of the Bank's Management and to prevent potential conflicts of interest.
- Transparency; except for trade secrets and information not yet disclosed to the public, it adopts the approach of publicly disclosing financial and non-financial information related to the Bank in a timely, accurate, complete, comprehensible, interpretable, and easily accessible manner at low cost.

CORPORATE MANAGEMENT CODES OF CONDUCT PRACTICES

- Responsibility; It ensures that all the activities of the Bank's management on behalf of the Bank are in compliance with the legislation, the articles of association and internal regulations.
- Accountability; It works by taking into consideration the accountability of the members of the Board of Directors mainly against the Bank's legal entity and therefore to the shareholders, thus providing transparency in corporate governance.

We actively use our bank's website in public disclosure. Our website includes the following headings and contents:

- Corporate (About Us, Our Vision and Mission, Our Strategy, Message from the Chairman of the Board, Message from the General Manager, Corporate Governance)
- Banking Services (Investment Banking, Corporate Banking)
- Investor Affairs (Activity Reports, Audit Reports, General Assembly Minutes, Our Management Policies and Announcements (AML Policies, US Patriot Act, Public Disclosure Form, Investor Rights, TBB Arbitration Board, BRSA Announcements, CMB Announcements, Product and Service Fees)
- Communication (Our Human Resources Policy, Career, Our Announcements, Job Application Form)
- Contact Us (Customer Complaint Line, Our Addresses)

INFORMATION ON TRANSACTIONS OF THE BANK WITH THE RISK GROUP IT IS INVOLVED

Through its branches and head office departments, our Bank provides commercial banking and investment banking services to Nurol Group companies.

The scope of our Bank's Activities;

- All kinds of cash and non-cash credit transactions,
- Cash and fiduciary payment and fund transfer transactions, use of correspondent banking accounts,
- Trading of money market instruments,
- Exchange transactions, including effective
- Purchase and sale of capital markets instruments,
- Capital market repurchase and resale commitment transactions,
- Financial leasing transactions,
- By-product transactions,
- Intermediary for foreign currency futures contracts,
- Forward exchange transactions between banks,
- Warranty transactions.

Feasibility studies of the works for which a bid will be proposed, project financing, issuance of long-term investment loans or issuance of syndicated loans, issuance of high amount non-cash loans or issuance of syndicated loans in the same way, hedging/by-products developed for protection against interest and currency risks, intermediation, leasing and factoring transactions for the non-standard risks of local and international projects (country risk, political risk, profit loss risk, contract risks etc.) developed by Nurol Group companies or public or other private institutions within the scope of investment banking services.

ACTIVITIES FOR WHICH SUPPORT SERVICES ARE RECEIVED PURSUANT TO THE REGULATION ON RECEIVING OF SUPPORT SERVICES BY THE BANKS

Within the scope of the Regulation on Receiving of Support Services by the Banks published by BRSA on 5.11.2011, we work with;

- Intertech Bilgi Islem ve Pazarlama Ticaret A.S. within the scope of the main banking system service

- Platin Serbest Muhasebeci Mali Musavirlik Limited Sirketi for the payroll operations and reporting, preparation of legal declarations and forms and tax declarations

- Bonded Kayit Sistemleri Dagitim Hizmetleri ve Ticaret A.S. within the scope of archiving services

- Credence Risk Yonetimi ve Danismanlik A.S. within the scope of call center and archiving services.

Audit Committee Report

Dear Shareholders,

The activities carried out by the internal systems (Internal Audit, Internal Control and Risk Management) within the scope of the relevant legislation are evaluated by the Audit Committee at the periodical meetings, and the decisions about the measures, practices and other important issues at our Bank are taken and the opinions are submitted to the Board of Directors.

The Audit Committee convened 18 times in 2018 to make suggestions to the Board of Directors. The first six month Audit Committee Activity Report of 2018 was prepared, examined by the Audit Committee and submitted to the Board of Directors. In addition, the evaluation letters on the reports of the audited activities were prepared and put into process.

Emergency exercises are conducted every year at our Bank regularly. Prior to performing emergency exercises, a scenario of the exercise is prepared by the emergency working group and this scenario is reviewed and approved for implementation by the Executive Committee. Adhering to the exercise scenario, emergency exercises are carried out with the overall participation of all units of the Bank.

Internal Control Department

The Internal Control Department, operating under the Board of Directors, is structured in such a way to ensure that all financial and operational risks identified related to the operations are continuously maintained at reasonable level and controlled for the protection of the Bank's assets, the execution of its activities in accordance with the legislation, internal legislation, regulations, internal policies, strategies and targets, and safe establishment of calculation and recording order and financial reporting system.

The Internal Control Department carries out risk and process-oriented reviews and controls within the scope of the Bank's activities and is responsible for reviewing, monitoring and evaluating the suitability, adequacy and effectiveness of the controls and reporting the results to the relevant persons.

Internal Control Department

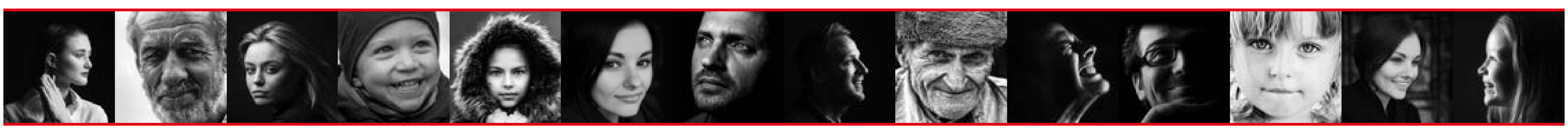
Continuous effective, accurate, orderly and safe conduct of operations and transactions are ensured through functional task allocations, transaction-approval authorities and limits, system controls, post-processing controls and other process-specific controls. In addition, IT controls are carried out as the continuation and part of the process implementation controls.

Operational errors and deficiencies identified within the scope of internal control activities are firstly shared with the staff carrying out the activities, and necessary complementary and preventive measures are taken quickly. Operational errors and deficiencies that have not been resolved are subjected to reports, and are also recorded in the database with defined operational risk matrix codes.

Within the scope of 2018 internal control business plan, 3 Banking Process and 2 Support Service companies were subjected to on-site inspection. In addition to monitoring the appropriateness of the bank's records within the scope of remote control, bank procedures and their compliance with the legislation and other procedures are examined by sampling method, while in the scope of On-Site Inspection; the compliance of the transactions with the internal and legal regulations was checked, and the findings, opinions and suggestions were primarily shared with the business owners responsible for carrying out the activities depending on their risk, importance level, and whether the corrective/preventive actions are taken regarding the determination, and after the necessary joint assessment, reports were prepared to inform the management levels and the Audit Committee.

The Internal Control Department Manager also serves as the MASAK Compliance Officer in order to ensure compliance with the regulations introduced by MASAK and to carry out the necessary works.

Our Bank has established a bank policy and acceptance processes within the frame of international best practices and MASAK regulations. These policies and processes are reviewed on a regular basis every year and updated as necessary. A special software is used to identify suspicious transactions and to control customer identifications and money transfers from negative lists. Our Bank provides its employees with regular training on this issue with the awareness of the importance of training in the prevention of money laundering and terrorist financing. Trainings can be given in two ways as in-class training or remote training.



Internal Audit Department

The Internal Audit Department executes the internal audit function covering all activities of the Bank by reporting to the Board of Directors. For this purpose, the Internal Audit Department carries out inspection works that supervise whether the performance of the activities are carried out in accordance with the legislation and internal strategies, policies, principles and objectives of the Bank. All activities of the Bank are audited periodically without any restriction in order to achieve the expected objective and benefit from the internal audit system.

It is based on risk-oriented approach in determining the activities to be audited in addition to the requirements of legal regulations. The Internal Audit Department evaluates the effectiveness and adequacy of the internal control and risk management systems by auditing the activities of the Bank in line with the laws and other legislation and internal strategies and objectives. The compliance of the activities with the legislation, the adequacy of the internal legislation, the adequacy, accuracy and effectiveness of the Bank's activities, the accuracy and reliability of the reports, accounting records and financial reports submitted to the BRSA and Senior Management and their compliance with time restrictions, and the structure of the internal processes are evaluated in the periodical and risk-based audits.

As a result of the audit activities, it is aimed to reveal the shortcomings, errors and abuses in the operations of the Bank. An approach that presents opinions and suggestions for the prevention of the recurrence of identified situations and for the effective and efficient use of the Bank's resources is adopted.

The Internal Audit Department shall review the information systems within the frame of the procedures and principles identified in the 5th section of the "Regulation on the Audit of the Bank's Information Systems and Banking Processes to be Carried Out by the Independent Audit Organizations" with "Procedures for the Audit of Information Systems and Banking Processes" heading.

Whether the results obtained through the risk measurement models and methods used in the Bank are included in the daily risk management, the pricing models and assessment systems used by the Bank, the risks covered by the risk measurement models used by the Bank, the accuracy and adequacy of the data and assumptions used in the models, the reliability, integrity and timely provision of the source of data, and the accuracy of the retrospective tests are evaluated in the internal audit activities for risk management. The internal evaluation process of the Bank's capital requirement is audited under the internal audit system within the frame of the legislation and internal regulations of the Bank in relation to this process.

The inspection reports that are issued as a result of the activities are communicated to the Audit Committee, senior management and relevant departments. The activities to eliminate the identified findings are followed by the Internal Audit Department. The Board of Directors closely follows the activities of the Internal Audit Department through the activity reports for the quarterly periods submitted by the Audit Committee.

FINANCIAL INFORMATION AND ASSESSMENTS ON RISK MANAGEMENT

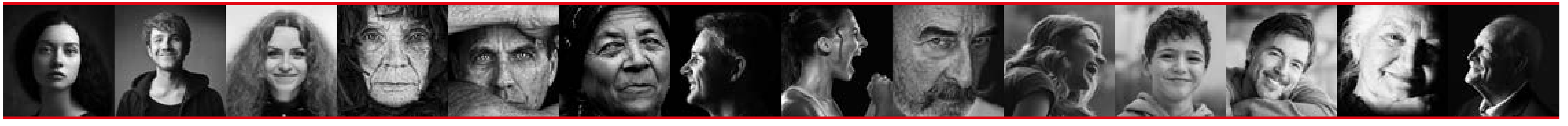
Risk Management Department

Risk Management Department carries out activities related to measuring, monitoring, controlling and reporting of identified risks within the frame of the application procedures determined by risk management policies and procedures, which have an organizational structure directly affiliated to the Board of Directors, and which are independent of executive functions, approved by the Board of Directors and reviewed regularly.

The purpose of the risk management system is to identify, measure, report, monitor and control the risks incurred through policies, procedures and limits identified to monitor, control and, when necessary, change the nature and level of activities, and to determine the internal capital requirement in line with the risk profiles. The Board of the Bank determines the level of risk appetite it wishes to bear in order to achieve its objectives by considering the risk capacity of the Bank and regularly reviews it.

The analyzes, simulations, scenarios, stress tests and Internal Capital Adequacy Assessment Process (ISEDES) report carried out within the scope of risk management play a role in the strategic decisions taken by the senior management of our Bank and support the decision-making mechanism.

Within the frame of risk management program, Risk Management Department carries out risk analysis evaluations in terms of technical competence and potential risks of the organizations from which support services are received.



INFORMATION ON RISK MANAGEMENT POLICIES BY RISK TYPES

Credit Risk

With regard to the credit risk, activities are carried out to measure, analyze, report and monitor credit risk. Credit risk is the risk exposed in case the counter party fails to meet its obligations determined through agreement. The credit risk is managed through the credit policies and procedures in the Bank. Within this framework, credit risk is managed on the basis of criteria such as the structure and characteristics of the credit, the provisions of the credit agreement and the financial conditions, the structure of the risk profile until the deadline in line with the possible market trends, the guarantees and collaterals, concentrations and compliance with the limits determined by the Board of Directors.

The credit allocation is carried out within the limits determined on the basis of each debtor. It is obligatory for each customer who has a credit transaction to have a credit limit allocated by the Board of Directors. In addition, the customer is not allowed systematically to excess the limit of his/her credit risk.

Our credit portfolio is analyzed depending on the credit type, currency, sector, credit debtor, group-based distribution and concentration, average maturity, and interest sensitivity, and submitted to the Senior Management and Audit Committee together with monthly reports. The amounts subject to credit risk are calculated using the standard approach method.

The management of counter-party credit risk is performed through the allocation of credit limit. While calculating the counter-party credit risk, fair value method is used. Country risk policy is taken into account during the allocation of counter-party credit limits.

Determination of the collaterals to be accepted for the allocation of counter-party limit is under the authority of the Board of Directors with the approval of the Credit Committee. Senior management evaluates the counter-party, country and sector risks and take action decision when necessary.

INFORMATION ON RISK MANAGEMENT POLICIES BY RISK TYPES

Market Risk

In addition to the legal limits, internal limits have been established in order to manage and limit the market risk. Market risk limits and functioning of the process, and control and early warning limits in the risk appetite document are identified with the approval of the Board of Directors and announced within the Bank. The risk limits are regularly monitored and reported by the Risk Management Department.

Within the scope of market risk, RMD measurements calculated using the internal method and the currency risk and general market risk calculated through standard method, stress tests and scenario analyzes are performed and their results are shared with the Senior Management and Audit Committee regularly by the Risk Management Department.

Operational Risk

With regard to the operational risk, risk identification, classification and analysis are carried out. The amounts subject to operational risk are calculated through the basic indicator approach. While measuring the operational risk, operational risk loss data for Basel II compliance is systematically collected and evaluated in the operational risk database.
With the limit of the operational risk amount determined by the basic indicator, the records taken from the database, loss and near-loss amounts are evaluated and reported to the Senior Management and the Audit Committee regularly.

Interest Rate Risk Caused by Banking Accounts

With regard to the interest rate risk caused by banking accounts, in order to determine the interest rate risk exposed by the Bank due to maturity noncompliance in the on-balance sheet and off-balance sheet positions, liquidity gap and interest rate sensitivity analyzes are carried out, and all the analyses and the ratios calculated by standard shock method are reported to the Senior Management and the Audit Committee together with the monthly reports.

The interest rate risk prepared by the Risk Management Department is measured by the standard shock method and reported to the Banking Regulation and Supervision Agency. Risk appetite and early warning limits were identified for monitoring the interest rate risk.

INFORMATION ON RISK MANAGEMENT POLICIES BY RISK TYPES

Liquidity Risk

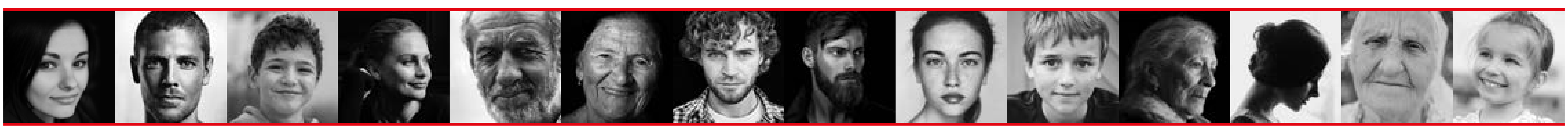
The liquidity management is carried out by the Treasury and Financial Institutions Department to ensure that the necessary precautions are taken in a timely and accurate manner against the market conditions and possible liquidity squeeze that may arise from the balance sheet structure of our Bank within the frame of the risk management policies approved by the Board of Directors.

In order to manage the liquidity risk effectively, the Bank and the market data are regularly monitored, and balance sheet assets and liabilities maturity structure and market borrowing volume analyses are carried out. The liquidity risk is managed by taking into account the early warning limits besides the compliance with the legal liquidity ratio as the risk appetite.

Cash flow, gap analyses, stress tests and scenario analyses are periodically reported by the Risk Management Department to the Senior Management and the Audit Committee when calculating and monitoring the liquidity risk of the Bank.

Other Risks

In our Bank, the risks evaluated within the scope of the second structural block such as country and transfer risk, strategic risk, reputation risk, legal risk, concentration and residual risk are managed in accordance with the policies approved by the Board of Directors, taking into account their importance levels.



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Güney Bağımsız Denetim ve
SMMM A.Ş.
Maslak Mahallesi Eski Büyükdere
Cad. Orjin Maslak Plaza No: 27
Sarıyer 34485
İstanbul - Türkiye

Tel: + 90 212 315 3000
Fax: + 90 212 230 8291
ey.com
Ticaret Sicil No: 479920

YÖNETİM KURULUNUN YILLIK FAALİYET RAPORUNA İLİŞKİN BAĞIMSIZ DENETÇİ RAPORU

Nurol Yatırım Bankası Anonim Şirketi Genel Kuruluna

1) Görüş

Nurol Yatırım Bankası ("Banka") ve konsolidasyona tabi ortaklığı'nın (Hep birlikte "Grup" olarak anılacaktır) 1 Ocak 2018-31 Aralık 2018 hesap dönemine ilişkin yıllık faaliyet raporunu denetlemiş bulunuyoruz.

Görüşümüze göre, yönetim kurulunun yıllık faaliyet raporu içinde yer alan konsolide ve konsolide olmayan finansal bilgiler ile Yönetim Kurulunun Grup'un durumu hakkında yaptığı irdelemeler, tüm önemli yönleriyle, denetlenen tam set konsolide ve konsolide olmayan finansal tablolarla ve bağımsız denetim sırasında elde ettiğimiz bilgilerle tutarlıdır ve gerçeği yansıtmaktadır.

2) Görüşün Dayanağı

Yaptığımız bağımsız denetim, 2 Nisan 2015 tarihli 29314 sayılı Resmi Gazete'de yayımlanan "Bankaların Bağımsız Denetimi Hakkında Yönetmelik" (BDDK Denetim Yönetmeliği")'ne ve Kamu Gözetimi, Muhasebe ve Denetim Standartları Kurumu (KGK) tarafından yayımlanan Türkiye Denetim Standartlarının bir parçası olan Bağımsız Denetim Standartlarına (BDS'lere) uygun olarak yürütülmüştür. Bu Standartlar kapsamındaki sorumluluklarımız, raporumuzun Bağımsız Denetçinin Yıllık Faaliyet Raporunun Bağımsız Denetimine İlişkin Sorumlulukları bölümünde ayrıntılı bir şekilde açıklanmıştır. KGK tarafından yayımlanan Bağımsız Denetçiler için Etik Kurallar (Etik Kurallar) ve bağımsız denetimle ilgili mevzuatta yer alan etik hükümlere uygun olarak Grup'tan bağımsız olduğumuzu beyan ederiz. Etik Kurallar ve mevzuat kapsamındaki etiğe ilişkin diğer sorumluluklar da tarafımızca yerine getirilmiştir. Bağımsız denetim sırasında elde ettiğimiz bağımsız denetim kanıtlarının, görüşümüzün oluşturulması için yeterli ve uygun bir dayanak oluşturduğuna inanıyoruz.

3) Tam Set Konsolide ve Konsolide Olmayan Finansal Tablolara İlişkin Denetçi Görüşümüz

Grup'un ve Banka'nın sırasıyla 1 Ocak 2018-31 Aralık 2018 hesap dönemine ilişkin tam set konsolide ve konsolide olmayan finansal tabloları hakkında 31 Ocak 2019 tarihli denetçi raporlarımızda olumlu görüş bildirmiş bulunuyoruz.

4) Yönetim Kurulunun Yıllık Faaliyet Raporuna İlişkin Sorumluluğu

Grup yönetimi, 6102 sayılı Türk Ticaret Kanununun (TTK) 514 ve 516 ncı maddelerine ve "Bankalarca Yıllık Faaliyet Raporunun Hazırlanmasına ve Yayımlanmasına İlişkin Usul ve Esaslar Hakkında Yönetmelik"'e göre yıllık faaliyet raporuyla ilgili olarak aşağıdakilerden sorumludur:

a) Yıllık faaliyet raporunu bilanço gününü izleyen ilk üç ay içinde hazırlar ve genel kurula sunar.

b) Yıllık faaliyet raporunu; Grup'un o yıla ait faaliyetlerinin akışı ile her yönüyle finansal durumunu doğru, eksiksiz, dolambaçsız, gerçeğe uygun ve dürüst bir şekilde yansıtacak şekilde hazırlar. Bu raporda finansal durum, konsolide ve konsolide olmayan finansal tablolara göre değerlendirilir. Raporda ayrıca, Grup'un gelişmesine ve karşılaşması muhtemel risklere de açıkça işaret olunur. Bu konulara ilişkin yönetim kurulunun değerlendirmesi de raporda yer alır.

c) Faaliyet raporu ayrıca aşağıdaki hususları da içerir:

- Faaliyet yılının sona ermesinden sonra Grupta meydana gelen ve özel önem taşıyan olaylar,
- Grup'un araştırma ve geliştirme çalışmaları,
- Yönetim kurulu üyeleri ile üst düzey yöneticilere ödenen ücret, prim, ikramiye gibi mali menfaatler, ödenekler, yolculuk, konaklama ve temsil giderleri, ayni ve nakdî imkânlar, sigortalar ve benzeri teminatlar

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- 1 Kasım 2006 tarihli ve 26333 sayılı Resmi Gazete'de yayımlanan "Bankalarca Yıllık Faaliyet Raporunun Hazırlanmasına ve Yayımlanmasına İlişkin Usul ve Esaslar Hakkında Yönetmelik" uyarınca belirlenen diğer konular

Yönetim kurulu, faaliyet raporunu hazırlarken Gümrük ve Ticaret Bakanlığının ve ilgili kurumların yaptığı ikincil mevzuat düzenlemelerini de dikkate alır.

5) Bağımsız Denetçinin Yıllık Faaliyet Raporunun Bağımsız Denetimine İlişkin Sorumluluğu

Amacımız, TTK hükümleri ve 1 Kasım 2006 tarihli ve 26333 sayılı Resmi Gazete'de yayımlanan "Bankalarca Yıllık Faaliyet Raporunun Hazırlanmasına ve Yayımlanmasına İlişkin Usul ve Esaslar Hakkında Yönetmelik", 1 Kasım 2006 tarihli ve 26333 sayılı Resmi Gazete'de yayımlanan "Bankaların Muhasebe Uygulamalarına ve Belgelerin Saklanmasına İlişkin Usul ve Esaslar Hakkında Yönetmelik" ve Bankacılık Düzenleme ve Denetleme Kurulu ("BDDK") tarafından bankaların hesap ve kayıt düzenine ilişkin yayımlanan diğer düzenlemeler ile BDDK genelge ve açıklamaları ve bunlar ile düzenlenmeyen konularda Türkiye Finansal Raporlama Standartları ("TFRS") hükümlerini içeren; "BDDK Muhasebe ve Finansal Raporlama Mevzuatı" çerçevesinde yıllık faaliyet raporu içinde yer alan konsolide ve konsolide olmayan finansal bilgiler ile Yönetim Kurulunun yaptığı irdelemelerin, Grup'un denetlenen konsolide ve Banka'nın konsolide olmayan finansal tablolarıyla ve bağımsız denetim sırasında elde ettiğimiz bilgilerle tutarlı olup olmadığı ve gerçeği yansıtıp yansıtmadığı hakkında görüş vermek ve bu görüşümüzü içeren bir rapor düzenlemektir.

Yaptığımız bağımsız denetim, BDDK Denetim Yönetmeliği'ne ve BDS'lere uygun olarak yürütülmüştür. Bu standartlar, etik hükümlere uygunluk sağlanması ile bağımsız denetimin, faaliyet raporunda yer alan konsolide ve konsolide olmayan finansal bilgiler ve Yönetim Kurulunun yaptığı irdelemelerin konsolide ve konsolide olmayan finansal tablolarla ve denetim sırasında elde edilen bilgilerle tutarlı olup olmadığına ve gerçeği yansıtıp yansıtmadığına dair makul güvence elde etmek üzere planlanarak yürütülmesini gerektirir.

Bu bağımsız denetimi yürütüp sonuçlandıran sorumlu denetçi Yaşar Bivas'dır.

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

Yaşar Bivas, SMMM
Sorumlu Denetçi

14 Mart 2019
İstanbul, Türkiye

ORDINARY GENERAL ASSEMBLY AGENDA

Ordinary General Assembly Meeting Agenda 2018

1- Opening and establishment of Chairmanship of Meeting,

2- Reading and discussing the Activity Report of the Board of Directors for the year 2018,

3- Reading the Report of the Independent Audit Organization,

4- Reading, discussing and approving the financial statements of the year 2018,

5- Acquitting the Members of the Board of Directors individually for the operations carried out in 2018,

6- Discussing and determining the wages and daily allowances of the Board Members,

7- Discussing and determining not to distribute the profit of 2018 and add 60,000,000.00 TL (six million Turkish Lira) of it to Company Capital,

8- Increasing the Company Capital from 160,000,000.00 TL (one hundred and sixty million Turkish Lira) to 220,000,000.00 TL (two hundred and twenty million Turkish Lira) as a result of the addition of 60,000,000.00 TL (six million Turkish Lira) of the profit of 2018,

9- Amending Article 7 of the Articles of Association regarding the Capital,

10- Discussing and determining the issue of giving premiums to the Bank's staff,

11- Acquitting the Independent Auditor (Audit Organization) for the activity period of 2018,

12- Selecting the Independent Auditor (Audit Organization) for the activity period of 2019,

13- Granting the permissions listed in Articles 395 and 396 of the TCC to the Board Members,

14- Wishes, requests and closure.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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Güney Bağımsız Denetim ve
SMMM A.Ş.
Maslak Mahallesi Eski Büyükdere
Cad. Orjin Maslak Plaza No: 27
Sarıyer 34485
İstanbul - Türkiye

Tel: +90 212 315 3000
Fax: +90 212 230 8291
ey.com
Ticaret Sicil No: 479920

INDEPENDENT AUDITOR'S REPORT

To the General Board 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 31 December 2018, and the consolidated profit or loss and other 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 31 December 2018, 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 judgement, were of most significance in our audit of the financial statements of the current period. Key audit 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.

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

Building a better working world

Key Audit Matter	How the matter is addressed in our audit
Financial impact of transition to IFRS 9 "Financial Instruments" standard and recognition of impairment on financial assets and related important disclosures	
As presented in Note 4.21, as of 1 January 2018, the Group adopted the IFRS 9 "Financial Instruments" standard and due to the adoption, the Group started to calculate and recognize expected credit losses of financial assets in accordance with IFRS 9. We considered the transition to IFRS 9 and impairment of financial assets as a key audit matter due to: - Amount of on and off balance sheet items that are subject to expected credit loss calculation is material for the financial statements - Transition to IFRS 9 has an effect on the Group's equity - There are complex and comprehensive accounting requirements of IFRS 9 - The classification of the financial assets is based on the Group's business model and characteristics of the contractual cash flows in accordance with IFRS 9 and the Group uses significant judgment on the assessment of the business model and identification of the complex contractual cash flow characteristics of financial instruments. - Policies implemented by the Group management include compliance risk to the regulations and other practices. - New or re-structured processes of IFRS 9 are advanced and complex. - Judgments and estimates used in expected credit loss calculation are new, complex and comprehensive. - The complex disclosure requirements of IFRS.	- Our audit procedures included among others include: - Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, Group's past experience, local and global practices. - Identifying and testing relevant controls and new IT systems by involving Information technology and Process audit specialists - Evaluating the reasonableness of management's key judgements and estimates made in expected credit loss calculations, including selection of methods, models, assumptions and data sources and evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice - Evaluating the understanding and the control of the Group's business model assessment and the test on the contractual cash flows - Involving Financial risk management specialists to challenge significant assumptions / judgements relating to credit risk grading, significant increase in credit risk, definition of default, probability of default, macro-economic variables, and recovery rates and performing loan review from the selected samples - Assessing the completeness, accuracy and relevance of the data used for the calculation of expected credit loss - Evaluating the appropriateness and tested the mathematical accuracy of Expected credit loss models applied. - Evaluating the judgments and estimates used for the individually assessed financial assets - Evaluating the reasonableness of and tested the post-model adjustments. - Auditing of the IFRS 9 disclosures.

Responsibilities of Management and 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.

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, SMMM
Partner

Istanbul, Turkey
February 18, 2019

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NUROL YATIRIM BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018

(Currency - In thousands of Turkish Lira)

	Note	Audited 31 December 2018	Audited 31 December 2017
Assets			
Cash and cash equivalents	6	308,898	26,682
Reserve deposits at Central Bank	7	321,030	312,292
Derivative financial assets		24,929	1,665
Financial assets measured at fair value through other comprehensive income	8	80,431	136,519
Loans and advances to customers	9	1,682,717	1,060,453
Property and equipment	12	4,040	2,322
Investment property	10	34,385	4,440
Intangible assets	13	2,190	1,375
Deferred tax assets	19	2,032	3,256
Current tax assets		7,157	-
Other assets	11	211,678	145,156
Total assets		**2,679,487**	**1,694,160**
Liabilities			
Funds borrowed	14	909,07715	462,441
Debt securities issued	15	736,306	638,849
Other liabilities	17	652,855	279,108
Derivative financial liabilities		37,257	18,831
Subordinated debts	16	80,254	57,267
Provisions	18	9,027	2,754
Current tax liability		-	5,946
Total liabilities		**2,424,776**	**1,465,196**
Equity			
Share capital	21	160,000	125,000
Reserves		19,283	35,448
Retained earnings		75,428	68,476
Total equity		**254,711**	**228,964**
Total liabilities and equity		**2,679,487**	**1,694,160**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2018	Audited 1 January 31 December 2017
Interest income	22	379,123	203,006
Interest expense	22	(204,427)	(99,368)
Net interest income		**174,696**	**103,638**
Fee and commission income	23	21,952	25,835
Fee and commission expense	23	(10,745)	(16,026)
Net fee and commission income		**11,207**	**9,809**
Net trading income / (loss)	24	**(51,622)**	**(13,123)**
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss		*(30,845)*	*(14,648)*
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		*(20,777)*	*1,546*
Other operating income	25	**22,609**	**5,271**
		(29,013)	**(4,852)**
Operating income		**156,890**	**108,595**
Net impairment/recoveries on financial assets	9	(21,186)	(5,321)
Other provision expenses	26	(4,193)	(756)
Personnel expenses	27	(16,684)	(14,648)
Depreciation and amortization		(1,980)	(1,208)
Administrative expenses	28	(29,412)	(18,687)
Profit before income tax		**83,435**	**68,005**
Income tax expense	17	(18,445)	(13,714)
Profit for the period		**64,990**	**54,291**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Financial assets measured at fair value through other comprehensive income			
Gain / (Loss) arising during the period		(19,405)	6,619
Income tax relating to components of other comprehensive income	19	19 326	(164)
Other comprehensive income (loss) for the period, net of income tax		**(19,079)**	**6,455**
Total comprehensive income for the period		**45,911**	**60,746**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - In thousands of Turkish Lira)

Audited	Note	Share capital	Fair value reserve of financial assets at fair value through other comprehensive income	Legal reserves	Retained earnings	Total equity
Balances at 1 January 2017		**45,000**	**24,533**	**2,913**	**95,772**	**168,218**
Transfer to reserves		-	-	**1,587**	**(1,587)**	-
Capital Increase		**80,000**	-	-	**(80,000)**	-
- Internal Sources		80,000	-	-	(80,000)	-
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		-	-		**54,291**	**60,746**
Balance at 31 December 2017		125,000	**30,998**	**4,500**	**68,476**	**228,964**
Prior period end balance		**125,000**	**30,988**	**4,500**	**68,476**	**228,964**
Impact of adopting IFRS 9 (*)	*4.21*	-	-	-	(20,164)	(20,164)
Balances at 1 January 2018		**125,000**	**30,988**	**4,500**	**48,312**	**208,800**
Transfer to reserves		-	-	**2,874**	**(2,874)**	-
Capital Increase		35,000	-	-	**(35,000)**	-
Internal Resources		35,000	-	-	(35,000)	-
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	64,990	64,990
- Other comprehensive income for the period, net of tax		-	(19,079)	-	-	(19,079)
Total comprehensive income for the period		-	**(19,079)**	-	**64,990**	**45,911**
Balance at 31 December 2018		**160,000**	**11,909**	**7,374**	**75,428**	**254,711**

(*) The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules and the difference between the book value of 1 January 2018 at the date of application reflected in the opening aspect of equity. The explanations about the transition effects to IFRS 9 are described in accounting policy 4.21.

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2018(*)	Audited 1 January 31 December 2017(*)
Cash flows from operating activities			
Net profit for the period		64,990	54,291
Adjustments:			
Depreciation and amortisation		1,980	1,208
Current tax expense	*17*	17,269	14,052
Deferred tax (income)/expense	*17*	1,176	(338)
Provision for loan losses	*9*	21,186	5,321
Other provisions		4,193	756
Other accruals		(9,903)	8,173
Lost from asset sale		-	-
Foreign exchange loss / (gain)		(50,626)	(7,612)
Fair value gain on investment property		(16,863)	-
Fair value gain on other assets	*23*	-	(6,931)
		33,402	**68,920**
Changes in operating assets and liabilities			
Change in derivative financial assets		(23,264)	928
Change in loans and advances to customers		(630,675)	(286,824)
Change in reserve deposits		(7,838)	(227,697)
Change in other assets		(103,530)	(26,001)
Change in other liabilities		369,078	46,785
Change in derivative financial liabilities		18,426	6,128
Change in borrowings		461,308	287,471
Taxes paid		(26,328)	(16,892)
Net cash provided by / (used in) operating activities		**57,176**	**(216,102)**
Cash flows from investing activities			
Purchase of financial assests measured at fair value through other comprehensive income		(3,897,624)	(1,258,272)
Sale of financial assests measured at fair value through other comprehensive income		3,932,938	1,175,029
Purchase of property and equipment		(9,313)	(64)
Proceeds from sale of investment property		-	10,100
Purchase of intangible assets		(1,546)	(388)
Net cash (used in) / provided by investing activities		**24,455**	**(73,595)**
Proceeds from debt securities issued		3,955,632	2,320,777
Repayment from debt securities issued		(3,839,075)	(2,217,244)
Proceeds from subordinated debts		-	-
Net cash provided by /(used in) financing activities		**116,557**	**103,533**
Effect of foreign exchange rate change on cash and cash equivalents		**50,626**	**7,612**
Net increase in cash and cash equivalents		**282,216**	**(109,631)**
Cash and cash equivalents at 1 January	*6*	26,682	136,314
Cash and cash equivalents at 31 December	***6***	**308,898**	**26,682**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 366,699 (31 December 2017: 194,862) and interest paid is amounting to TL 202,142 (31 December 2017: 83,593).

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

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the "Bank" or "Nurolbank") was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned controlled by the Nurol Holding A.Ş.

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 September 2017. Nurol Varlık Kiralama A.Ş.'s paid in capital is amounting to TL 50 as of December 31, 2018.

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 Bank is not authorised to receive deposits from customers. The Bank's head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

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

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	125,052	78.16
Nurol İnşaat ve Tic. A.Ş.	25,536	15.96
Nurol Otelcilik ve Turizm İşletmeciliği A.Ş.	1,408	0.88
Other	8,004	5.00

The Parent Bank's paid in capital has been increased by TL 35,000 provided from internal sources in the current period (January 1- December 31, 2017: The Parent Bank's paid in capital has been increased by TL 80,000 provided from internal resources).

The shareholder having direct or indirect control over the shares of the 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.

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2018 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 2018. 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 2018 are as follows:

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. The Group assessed the effect of IFRS 15 "Revenue from Contracts with Customers" standard and the amendments did 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. Effective 1 January 2018, the Group adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement and substantially changes the classification, measurement and impairment of financial assets, income statement and balance sheet presentation and disclosure of financial instruments and other arrangements in scope. As permitted by IFRS 9, the Group elected not to restate prior-period information. The adoption of IFRS 9 has resulted in a TL 20.1 million reduction in the Group's IFRS consolidated equity, net of tax as of 1 January 2018. Explanations on adoption of IFRS 9 is explained in Note 4.21.

IFRS 7 Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures was updated in line with IFRS 9, Financial Instruments. The Group adopted the revised standard on 1 January 2018. Given the first quarter of 2018 includes the date of initial application of IFRS 9, and to meet the general disclosure requirements for annual periods to describe the nature and effects of changes to policies and methods made since the last annual reporting, the Group provides the IFRS 9 transition disclosures as set out by IFRS 7 in the first quarter of 2018. A full set of disclosures as required by revised IFRS 7 will be provided in the Group's annual Financial Statements as of and for the year ended 31 December 2018.

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

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

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

b. share-based payment transactions with a net settlement feature for withholding tax obligations; and

c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did 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 applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and did 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 applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant impact on the 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 recognizes 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. The interpretation is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

2. 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 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 applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Group and 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.

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

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

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. IFRS 16 Leases which will be effective from 1 January 2019 has completed harmonization activities by the Group as of 31 December 2018 if the standard was applied, the effect of the standard on the financial statement position would be between 0.1% and 0.3%.

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

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

2. 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. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company 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 2019, with early application permitted. Overall, the Group expects no significant impact on its balance sheet and equity.

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 amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

(Currency - In thousands of Turkish Lira)

3. 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.

4. 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. The consolidated financial statements were authorised for issue by the Group's management on 18 February 2019.

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 measured at fair value through profit or loss,
• financial instruments measured at fair value through other comprehensive income,
• Investment property

4. Significant accounting policies (continued)

4.2 Basis of measurement (continued)

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 measured at fair value through profit or loss,
financial instruments measured at fair value through other comprehensive income,
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 2018	**5.2810**	**6.0422**
31 December 2017	3.7719	4.5155

4.4 Interest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

4. Significant accounting policies (continued)

4.4 Interest income and interest expense (continued)

If the financial asset is impaired and classified as a non-performing receivable, the Parent Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. It is used effective interest rate during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods are calculated by applying the effective interest rate to the gross amount.

Interest income and expense presented in the statement of comprehensive income statement include:

- The interest income on financial assets and liabilities at amortized cost on an effective interest rate basis

- The interest income on held for trading investments and fair value through other comprehensive income investments.

4.5 Fees and commission

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

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.

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4. Significant accounting policies (continued)

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

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

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

4.9 Financial instruments

Initial recognition of financial instruments

The Parent Bank shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted.

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, the Parent Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instruments shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss. The Parent Bank tested all financial assets whether their "contractual cash-flows solely represent payments of principal and interest" and assessed the asset classification within the business model.

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Parent Bank's business models are divided into three categories.

4. Significant accounting policies (continued)

4.9 Financial instruments (continued)

Business model aimed to hold assets in order to collect contractual cash flows

This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Receivables from the Central Bank, Banks, Money Market Placements, investments under financial assets measured at amortized cost, loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent Bank may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models

Financial assets are measured at fair value through profit or loss when they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Financial assets measured at fair value through profit/loss are assessed in this business model.

4.9.1 Financial assets

Financial assets are classified in three main categories as listed below:

- Financial assets measured at fair value through profit/loss
- Financial assets measured at fair value through other comprehensive income and
- Financial assets measured at amortized cost

4. Significant accounting policies (continued)

4.9 Financial instruments (continued)

4.9.1 Financial assets (continued)

Financial assets at the fair value through profit or loss

Financial assets at fair value through profit/loss are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aimes to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and measured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Financial Assets at Fair Value Through Other Comprehensive Income

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement.

“Unrealized gains and losses” arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and are accounted under the “Other comprehensive income/ expense items to be recycled to profit/loss” under shareholders’ equity. Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost. Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

4. Significant accounting policies (continued)

4.9 Financial instruments (continued)

4.9.1 Financial assets (continued)

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the “Effective Interest Rate (internal rate of return) Method”.

All loans of the Parent Bank has classified under Measured at Amortized Cost, after loan portfolio passed the test of “All cash flows from contracts are made only by interest and principal” during the transition period.

Due from banks

Due from banks 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 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 financial statements.

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

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.

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4. 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

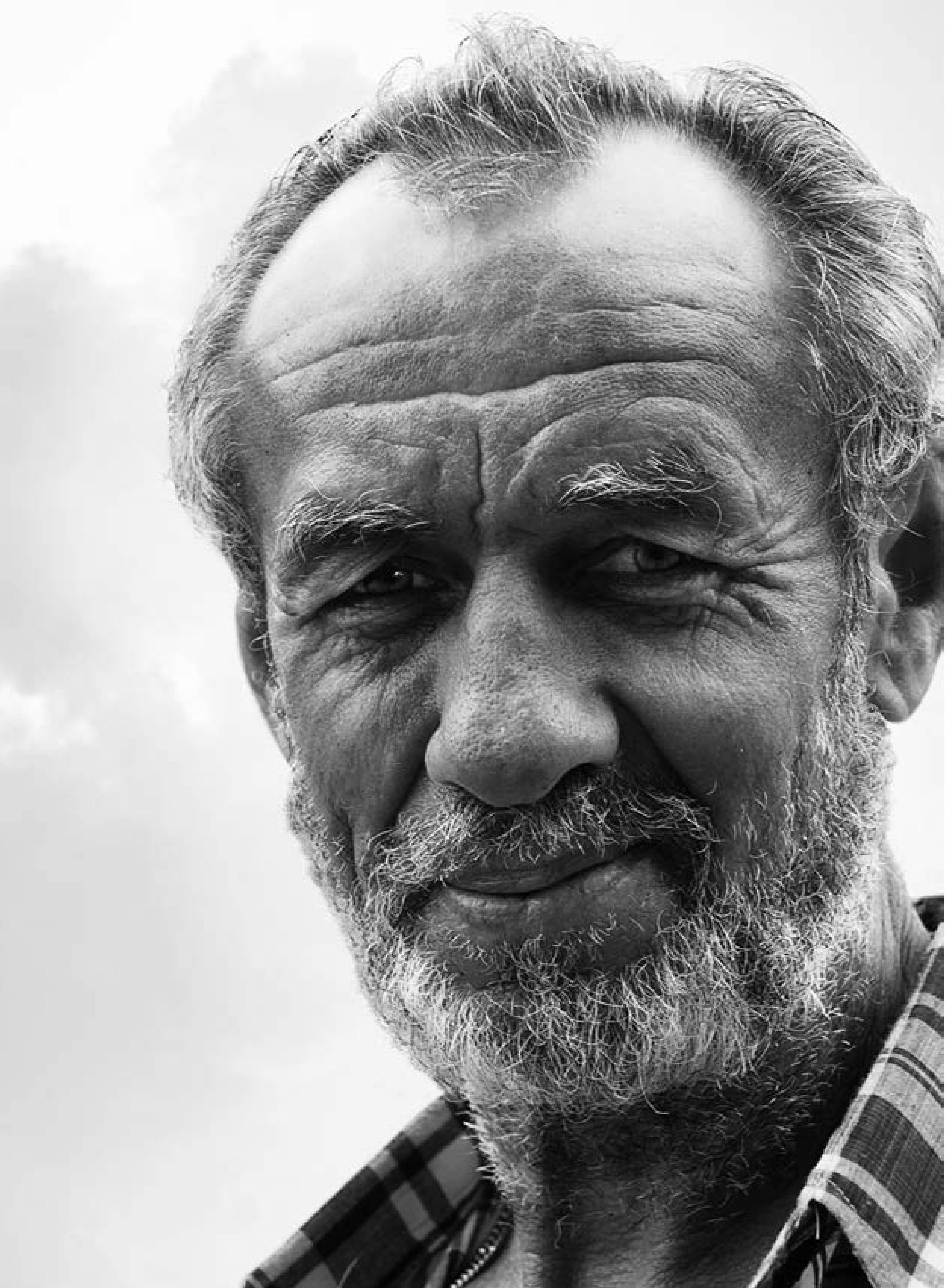
The Group is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Group’s sources of debt funding.

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.

4.9.3 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.



4. Significant accounting policies (continued)

4.10 Expected Credit Loss

As of 1 January 2018, the Group recognizes a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non cash loans on IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. The Parent Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of expected credit losses on the 12-month default risk. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of three scenarios explained above.

Stage 2:

As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition, the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument's lifetime expected credit losses. Calculation approach is quite similar with approach mentioned above, but probability of default and loss amount in default ratios estimated for the lifetime of instruments.

Stage 3:

Financial assets considered as impaired at the reporting date are classified as stage 3. The probability of default is taken into account as 100% in the calculation of impairment provision and the Group accounts lifetime expected credit losses. In determining the impairment, the Parent Bank takes into consideration the following criteria:

- Delay of over 90 days
- Do not carry the necessary conditions for Stage 1 and Stage 2

4. Significant accounting policies (continued)

4.10 Expected Credit Loss (continued)

Calculation of expected credit losses

The Parent Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations about time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Prior to 01 January 2018, the Parent Bank applied portfolio-based valuation method using its historical data for the calculation of impairment allowance for loans and advances as per IAS 39. Based on the historical data, an average PD (Probability of Default) and LGD (Loss Given Default) was determined. (Average PD was 0.85% and Average LGD was 87.76% according to the last calculations made on 31 December 2017). As of 1 January 2018, the Parent Bank has started to apply IFRS 9 for the classification of loans and receivables, measuring credit quality and calculating expected loss provisions. The Parent Bank calculates PDs, LGD and EAD (Exposure at default) and ECL (expected credit losses) for each financial asset, rather than group or portfolio basis. PDs are determined by the parent bank based on internal rating scores calculated within own model. The Parent Bank's policy is to use standard PDs published based on historical data published by international rating agencies. PDs are available for the next ten years as annual and cumulative basis. Annual periods are calculated by interpolating. For noncash loans, prior to calculating EAD, cash equivalent risk exposures are calculated by a credit conversion factor (CCF). Credit Conversion Factors are determined based on the ratios specified in the "Capital Adequacy Regulation" settled by BRSA. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

The Parent bank calculated the average PD and LGD as 2.20% and 21.17%, respectively for cash financial assets, 1.35% and 44.38% for noncash loans as of 31 December 2018. 100% PD is applied for all financial assets in stage 3.

Probability of Default ("PD")

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from TTC PDs and scenario forecasts. In the modeling, different probability of default are used for products which have country risk.

In order to measure risk, internal rating systems, credit ratings issued by external rating agencies, payment performance of customers, and risk center credit notes for commercial customers are used to a certain extent.

Historical datas which are issued by international rating agencies are considered in order to calculate probability of default for customers and countries. The probabilities of default are cumulative in the next ten years and are calculated in the annual periods based on the estimation method.

In addition, the probability of default calculation includes historical data, current conditions and prospective macroeconomic they are updated considering expectations.

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4. Significant accounting policies (continued)

4.10 Expected Credit Loss (continued)

Loss Given Default ("LGD")

The LGD represents an estimate of the economic loss at the time of a potential default occurring during the life of a financial instrument. The LGD is calculated taking into account expected future cash flows from collateral and other credit enhancements by considering time value of money. LGD calculation are also considered collaterals based on specified rate according to 'Determining the Qualifications of Loans and Other Receivables by Banks Regulation on Procedures and Principles for Provisions'

Exposure at Default ("EAD")

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate.

Consideration of the Macroeconomic Factors

The probability of default is determined by basic macroeconomic factors such as unemployment, GDP growth, inflation and interest rates. Also, Turkey's 5-year credit risk (CDS Spreads) that has high correlation are based in order to update to "PD". While updating "PD", average amount for a year and the end of period value are considered for CDS Spreads.

Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the Parent Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Parent Bank. Estimated periods for the parent bank's exposure to risk were calculated by considering at historical data for full guarantee letters.

Significant increase in credit risk

The Parent Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk).

Within the scope of quantitative assessment, The quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2. In this context, the Parent Bank has calculated thresholds at which point the relative change is a significant deterioration.

When determining the significant increase in parent bank credit risk, The Parent Bank also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

The Parent Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date
- When there is a change in the payment plan due to restructuring

4. Significant accounting policies (continued)

4.11 Derecognition, reclassification and refinancing of financial instrument

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. When the Parent Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

Where all risks and rewards of ownership of the asset have not been transferred to another party and the Parent Bank retains control of the asset, the Parent Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Parent Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Derecognition of financial assets without any change in contractual terms

The Parent Bank derecognizes the asset if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

Derecognition of financial liabilities

It shall be removed a financial liability (or a part of a financial liability) from the statement of financial position when, and only when, it is extinguishen when the obligation specified in the contract is discharged or cancelled or expires.

Reclassification of financial instruments

Based on IFRS 9, it shall be reclassified all affected financial assets at amortised cost to financial assets measured at fair value through other comprehensive income and fair value through profit or loss in the subsequent accounting when, it is changed the business model for managing financial assets.

4. Significant accounting policies (continued)

4.11 Derecognition, reclassification and refinancing of financial instrument (continued)

Restructuring and refinancing of financial instruments

It may be changed the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in a whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

Corporate and commercial companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

- Subsequent to the thorough review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time)

- At least 2 years should pass over the date restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring/refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring/refinancing.

In order for the restructured non-performing corporate and commercial loans to be classified to the watchlist category, the following conditions are met:

- Recovery in debt service,

- At least 1 year should pass over the date of restructuring,

- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring/refinancing or the date when the debtor is classified as non-performing (earlier date to be considered) and fulfilment or the payment condition of all overdue amounts as of the date of restructuring/refinancing.

- Collection of all overdue amounts, disappearance of the reasons for classification as non-performing receivable (based on the conditions mentioned above) and having no overdue more than 30 days os of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring/refinancing, if there is a new structuring/refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again. The performing or non-performing retail loans being subject to restructuring shall be removed from the watchlist only if the debt is paid in full.

4. Significant accounting policies (continued)

4.12 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.

4.13 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.

4.14 Investment properties

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

The 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.

4. Significant accounting policies (continued)

4.14 Investment properties (continued)

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.

4.15 Leases

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

The 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.

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. Significant accounting policies (continued)

4.17 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-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.

4.18 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.

4.19 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.

4.20 Key sources of estimation uncertainty

Expected credit loss

Expected credit loss calculation methodology of the Group described in accounting policy 4.10.

Determining fair values

The determination of fair value for financial assets and liabilities of the Group described in accounting policy 4.9.

4.21 Adoption effect of IFRS 9 Financial Instruments

Effective 1 January 2018, the Group adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement and substantially changes the classification, measurement and impairment of financial assets, income statement and balance sheet presentation and disclosure of financial instruments and other arrangements in scope. IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.21 Adoption effect of IFRS 9 Financial Instruments (continued)

In accordance with the transition rules option provided by the IFRS 9 "Financial Instruments", the Group is not restated the prior period financial statements and recognized the transition effect of the standard as of January 1, 2018 under equity's "Retained earnings" accounts. Explanation of the effect of the Group's application of IFRS 9 is stated below:

Reconciliation of statement of financial position balances as at the transition of IFRS 9

	Before IFRS 9		IFRS 9	
	Measurement Method	Book Value	Measurement Method	Book Value
Financial Assets		31 December 2017		1 January 2018
Cash and cash equivalents	Amortised cost	26,682	Amortised cost	26,682
Reserve deposits at Central Bank	Amortised cost		Amortised cost	
Marketable securities	Financial assets at measured fair value through other comprehensive income Amortised Cost	312,292 -	Financial assets at measured fair value through other comprehensive income Amortised Cost	312,292
Derivative financial assets	Financial assets measured at fair value through profit or loss Financial assets at measured fair value through other comprehensive income	1,665	Financial assets measured at fair value through profit or loss Financial assets at measured fair value through other comprehensive income	1,665
Loans and advances to customers (Gross)	Amortised Cost	1,061,634	Amortised Cost	1,061,634

Reconcilation of the opening balances of the provision for expected credit losses to IFRS 9

Finansal Varlıklar	Book Value Before IFRS 9 31 December 2017	Remeasurements	Book Value After IFRS 9 1 January 2018
Loans			
Stage 1 & Stage 2	7,943	(3,364)	4,579
Stage 3	3,235	25,418	28,653
Financial Assets(*)	-	**194**	**194**
Non-Cash Loans	**908**	**3,604**	**4,512**
Stage 1 & Stage 2	-	1,468	1,468
Stage 3	908	2,136	3,044
Total	**12,086**	**25,852**	**37,938**

(*) Within the scope of IFRS 9, provisions include provisions for Financial Assets Fair Value through Other Comprehensive Income, Receivables from Banks and Receivables from Money Markets

4. Significant accounting policies (continued)

4.21 Adoption effect of IFRS 9 Financial Instruments (continued)

Effects on equity with IFRS 9 transition

As permitted in IFRS 9, the difference between the book value of 1 January 2018 at the date of application reflected in the opening aspect of equity. The explanations about the transition effects to IFRS 9 presented in the equity items are given below:

After deducting amounting to TL 5,688 positive tax effect, amounting to TL 20,164 which is an expense between the provision for impairment of the previous period of the Group and the provision for loss that is measured in accordance with IFRS 9 impairment model as of 1 January 2018 is classified as "Retained Earnings" in shareholders' equity.

4.22 Explanations on prior period accounting policies not valid for the current period

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.

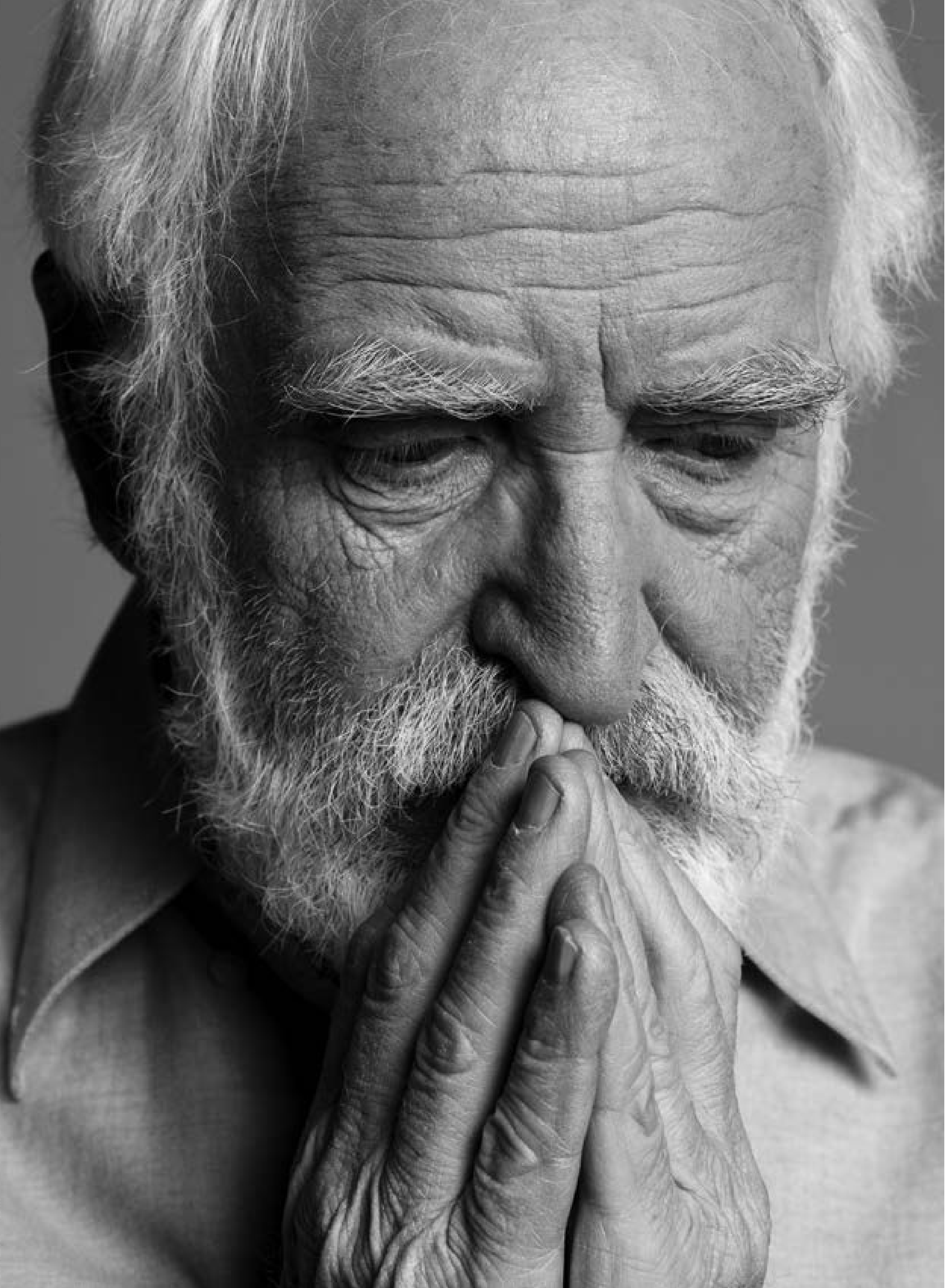
Interest income is suspended when loans are impaired and is excluded from interest income until received.

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. Significant accounting policies (continued)

4.22 Explanations on prior period accounting policies not valid for the current period (continued)

Financial assets and liabilities

a) 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.

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.

4. Significant accounting policies (continued)

4.22 Explanations on prior period accounting policies not valid for the current period (continued)

Due from banks and loans and advances to customers

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

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.22 Adoption effect of IFRS 9 Financial Instruments (continued)

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.

Derecognition of financial liabilities

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

5. 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.

5. Segment reporting (continued)

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 2018	Corporate Banking	Other(*)	Total operations of the Group
Operating income	136,294	20,596	156,890
Other expenses	(73,455)	-	(73,455)
Profit before income tax	62,839	20,596	83,435
Income tax income/expense			(18,445)
Profit for the period	**44,394**	**20,596**	**64,990**
Segment assets	2,677,945	1,542	2,679,487
Non-distributed Asset	-	-	-
Total assets	**2,677,945**	**1,542**	**2,679,487**
Segment liabilities	2,424,776	-	2,424,776
Shareholders' equity	-	254,711	254,711
Total liabilities	**2,424,776**	**254,711**	**2,679,487**

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

31 December 2017	Corporate Banking	Other(*)	Total operations of the Group
Operating income	97,915	10,680	108,595
Other expenses	(40,590)	-	(40,590)
Profit before income tax	57,325	10,680	68,005
Income tax income/expense			(13,714)
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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018

(Currency - In thousands of Turkish Lira)

6. Cash and cash equivalents

	31 December 2018	31 December 2017
Cash and balances with central banks	226,522	3,452
- Cash on hand	734	99
- Balances with central banks	225,788	3,353
Due from banks and financial institutions(*)	82,376	23,230
Cash and cash equivalents in the balance sheet	**308,898**	**26,682**

(*) As a result of IFRS 9 adoption, amount of TL 6 provision booked for due from banks and financial instutions as of December 31, 2018.

Expected credit loss for banks

	Stage 1	Stage 2	Stage 3	Total
Balances at Beginning of Period (1 January 2018)	**1**	-	-	**1**
Additions During the Period (+)	123	-	-	123
Disposal (-)	(118)	-	-	(118)
Balances at End of Period	**6**	-	-	**6**

7. Reserve deposits at Central Bank

	31 December 2018	31 December 2017
Turkish Lira	233,697	253,397
Foreign currency	87,333	58,895
	321,030	**312,292**

(Currency - In thousands of Turkish Lira)

8. Financial assets measured at fair value through other comprehensive income

	31 December 2018		31 December 2017	
	Amount	Effective interest rate	Amount	Effective interest rate
Financial assets measured at fair value through other comprehensive income				
Debt instruments (a)	60,670	16.44%	98,897	13.38%
Equity instruments – listed (b)	13,446		31,384	
Equity instruments – unlisted	6,414		6,238	
Financial assets measured at fair value through other comprehensive income	**80,530**		**136,519**	
Expected Credit Losses (-)(c)	**(99)**		**-**	
Total FVTOCI	**80,431**		**136,519**	

(a) Financial assets measured at fair value through other comprehensive income include government bonds denominated in TL amounting to TL 1,155 (31 December 2017: TL 813), bank bonds amounting to TL 6,065 (31 December 2017: TL 5,042), private sector securities amounting to 0 TL (31 December 2017: TL 7,003), Private sector bonds amounting to TL 53,450 (31 December 2017: TL 86,039).

(b) The Group holds 15.97% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 31 December 2018 and the investment is accounted under fair value through other comprehensive income 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 11,230 is accounted under equity (31 December 2017: TL 29,167).

(c) The Group began calculating expected credit loss for financial assets measured at fair value through other comprehensive income with the adoption of IFRS 9. As of 31 December 2018, the expected credit loss that is calculated for financial assets measured at fair value through other comprehensive income is TL 99.

Expected credit loss for financial assets measured at amortised cost

	Stage 1	Stage 2	Stage 3	Total
Balances at Beginning of Period (1 January 2018)	**115**	-	-	**115**
Additions During the Period (+)	1,534	-	-	1,534
Disposal (-)	(1,550)	-	-	(1,550)
Balances at End of Period	**99**	-	-	**99**

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers

	31 December 2018		
	Amount		
	TL	Foreign currency	Total
Short-term loans	885,499	55,758	941,257
Medium and long-term loans	178,731	421,951	600,682
Total performing loans	**1,064,230**	**477,709**	**1,541,939**
Generic provisions for Stage 1 and Stage 2	**(9,143)**	**-**	**(9,143)**
Non-performing loans (*)	152,285	-	152,285
Provisions for Stage 3 (*)	(2,364)	-	(2,364)
Total non-performing loans (net)	**149,921**	**-**	**149,921**
Total loans, net	**1,205,008**	**477,709**	**1,682,717**

(*)Non performing loans amounting to TL 44,395 has been written off by the Group in 2018.

	31 December 2017		
	Amount		
	TL	Foreign currency	Total
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**	318,454	1,061,634
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**	-	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.

9. Loans and advances to customers (continued)

Lending structure of the Group:

	31 December 2018	31 December 2017
Corporate Lending	1,400,188	874,616
SME Lending	31,881	47,078
Other Lending	262,155	149,937
Less: Allowance for ECL/impairment losses	(11,507)	(11,178)
Total	**1,682,717**	**1,060,453**

Expected Credit Loss Expense Movement of the Group:

	31 December 2017			
	ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	5	-	-	5
Securities	(16)	-	-	(16)
Derivatives	-	-	-	-
Loans and advances to customers	1,517	3,046	18,107	22,670
Other financial assets	(43)	-	-	(43)
Guarantees	(13)	820	(2,172)	(1,365)
LCs and Acceptances	(65)	-	-	(65)
	1,385	**3,866**	**15,935**	**21,186**

Provision movement of the Group as of 31 December 2017:

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

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets:

	31 December 2018							
	Carrying Amount				ECL Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	629,934	-	-	629,934	6	-	-	6
Securities	80,530	-	-	80,530	99	-	-	99
Derivatives	24,929	-	-	24,929	-	-	-	-
Loans and advances to customers	1,417,029	124,910	152,285	1,694,224	1,958	7,185	2,364	11,507
of which : Large corporate clients	*1,122,993*	*124,910*	*152,285*	*1,400,188*	*1,905*	*7,185*	*2,364*	*11,454*
of which : SME clients	*31,881*	-	-	*31,881*	*5*	-	-	5
of which : Others	*262,155*	-	-	*262,155*	*48*	-	-	48
Other financial assets	2,271	-	-	2,271	34	-	-	34
Total on-balance sheet financial assets in scope of ECL requirements	**2,154,693**	**124,910**	**152,285**	**2,431,88**	**2,097**	**7,185**	**2,364**	**11,646**

Impairment allowance for loans and advances to customers	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	84	-	-	84
Standard grade	623	142	-	765
Sub-standard grade	1,251	7,043	-	8,294
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	2,364	2,364
	1,958	**7,185**	**2,364**	**11,507**

Aging of past-due exposures	31 December 2018				
	Up to 3 Month	3-12 Months	1-3 Years	3-5 Years	5 Years and other
Current Period					
Corporate and Commercial Loans	72,709	152,285	-	-	-
Retail Loans	-	-	-	-	-
Others	-	-	-	-	-
	72,709	**152,285**	-	-	-

10. Investment Property

As of 30 November 2015, the Parent Bank transferred the loan which is classified in the portfolio of overdue receivables amounting to TL 9,035, to an asset management company through revenue sharing method. The Parent Bank made provision amounting to TL 2,259 to the unguaranteed portion of these transferred receivables before transfer with revenue sharing method. As of 31 December 2017, the Parent Bank recognized aforementioned receivables as transferred asset in "loan and advances to customers" line. In the current period, the Parent Bank purchased the property which was obtained by the asset management company by levy, on account of revenue sharing agreement and receivables. The Parent Bank started monitoring that property under the investment property account with re-evaluating the appraisal report (appraisement value: TL 27,655). As of 31 December 2018, the Group has investment property amounting to TL 34,385 (31 December 2017: 4,440).

The Company accounts its investment property under fair value model.

11. 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 26.25 million USD. As of 31 December 2018 the first twelve months of agreement has expired and based on the agreement the Group has recognized 26.25 million USD in other assets.

The Group concluded a "Right to repurchase agreement" over the real estate property with the value of 47 million TL.

(Currency - In thousands of Turkish Lira)

12. Property and equipment

	Office equipment	Furniture and fixfures	Other fixed assets	Total
Cost				
Balance at 1 January 2018	3,368	338	1,497	5,203
Acquisitions	778	373	1,646	2,797
Disposals	-	-	-	-
Balance at 31 December 2018	**4,146**	**711**	**3,143**	**8,000**
Depreciation				
Balance at 1 January 2018	1,919	180	782	2,881
Depreciation charge for the period	555	95	429	1,079
Disposals	-	-	-	-
Balance af 31 December 2018	**2,474**	**275**	**1,211**	**3,960**
Carrying value as of 31 Decemher 2018	**1,672**	**436**	**1,932**	**4,040**

	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**

13. Intangible assets

	Software	Total
Cost		
Balance at 1 January 2018	5,304	5,304
Additions	1,546	1,546
Balance at 31 December 2018	**6,850**	**6,850**
Amortization and impairment		
Balance at 1 January 2018	3,929	3,929
Amortization change for the period	731	731
Balance at 31 December 2018	**4,660**	**4,660**
Carrying valus as of 31 December 2018	**2,190**	**2,190**

	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**

14. Funds borrowed

	31 December 2018			31 December 2017		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Funds borrowed	309,131	505,933	815,064	69,506	332,915	402,421
Obligations under repurchase agreements	84,033	9,980	94,013	1,018	59,002	60,020
	393,164	**515,913**	**909,077**	**70,524**	**391,917**	**462,441**

The effective interest rate for funds borrowed denominated in USD is 5.63% (31 December 2017 –4.51%), in EUR is 3.15% (31 December 2017 – 2.69%) and in TL is 25.41% (31 December 2017 – 12.34 %).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 31 December 2018 (31 December 2017 – None).

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15. Debt securities issued

	31 December 2018			31 December 2017		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds	718,363	-	718,363	559,703	-	559,703
Bills	17,943	-	17,943	79,146	-	79,146
	736,306	-	**736,306**	**638,849**	-	**638,849**

Debt securities issued – Cash flow movement

	31 December 2018
Balance as at 1 January 2018	638,849
Proceed during the year	3,955,632
Repayments during the year	(3,839,075)
Other non-cash movements	(19,100)
Balance as at 31 December 2018	**736,306**

As of December 31, 2018, the list of the issued bills and bonds by the Parent Bank in 2018 are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BILL	29.11.2016	29.05.2019	911	37,500,000	%13.55
BILL	29.11.2016	29.11.2019	1,095	42,750,000	%13.80
BOND	19.10.2018	17.01.2019	90	50,000,000	%28.75
BOND	25.10.2018	25.01.2019	92	40,000,000	%28.50
BOND	31.10.2018	11.01.2019	71	50,000,000	%28.50
BOND	07.11.2018	06.02.2019	91	50,000,000	%27.50
BOND	16.11.2018	15.02.2019	91	60,000,000	%26.50
BOND	29.11.2018	15.03.2019	106	150,000,000	%26.00
BOND	05.12.2018	06.03.2019	91	50,000,000	%24.50
BOND	21.12.2018	01.03.2019	70	50,000,000	%24.00
BOND	27.12.2018	27.06.2019	182	120,000,000	%24.25
BOND	21.11.2018	20.02.2019	91	72,000,000	%25.00
BOND	14.12.2018	14.06.2019	182	50,000,000	%25.00
BOND	27.12.2018	27.06.2019	182	50,000,000	%24.00

Nurol Varlık Kiralama Şirketi A.Ş. issued "Lease certificates" amounting to TL 172,000,000 (full TL) in 2018.

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16. Subordinated debts

	31 December 2018			31 December 2017		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds	-	53,781	53,781	-	39,472	39,472
Bills	-	26,473	26,473	-	17,795	17,795
	-	**80,254**	**80,254**	**-**	**57,267**	**57,267**

(*) The Parent Bank has issued Eurobond on March 31, 2016 with a nominal value of USD 10,000,000, 10 years maturity and fixed interest rate of 10%, having a coupon payments every six months and received a loan on December 27, 2016 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 (31 December 2017 – USD 15,000,000).

17. Other liabilities

	31 December 2018	31 December 2017
Cash collaterals (*)	618,939	265,129
Taxes and funds payable	5,272	3,831
Others	28,644	10,148
	652,855	**279,108**

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

18. Other liabilities

	31 December 2018	31 December 2017
Provision for non-cash loans(*)	3,083	908
Employee termination benefits	1,064	857
Bonus accrual	3,279	-
Unused vacation accrual	1,401	863
Provision for lawsuits	200	126
	9,027	**2,754**

18. Other liabilities (continued)

The movement in vacation pay liability is as follows:

	2018	2017
At 1 January	863	660
Provision provided /(reversal)	538	203
At 31 December	**1,401**	**863**

The movement in provision for bonus accrual is as follows:

	2018	2017
At 1 January	-	-
Provision provided	3,279	1,000
Bonus paid	-	(1,000)
At 31 December	**3,279**	**-**

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

	2018	2017
At 1 January	857	693
Provision provided /(reversal)	207	164
At 31 December	**1,064**	**857**

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 5,434.42 for each period of service at 31 December 2018 (31 December 2017: TL 4,732.48).

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18. Other liabilities (continued)

Employee termination benefits (continued)

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 2018, 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 10.00% (31 December 2017: 8.00%) annual inflation rate and 15.00% (31 December 2017: 12.00%) discount rate.

Expected credit loss measurement of off-balance sheet financial assets:

	31 December 2018							
	Carrying Amount				ECL Allowance(*)			
Expected credit loss measurement	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Guarantees	762,875	18,744	7,312	788,931	397	1,793	872	3,062
LCs and Acceptances	5,868	-	-	5,868	21	-	-	21
Total	**768,742**	**18,744**	**7,312**	**794,799**	**418**	**1,793**	**872**	**3,083**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

Impairment allowance for off-balance sheet financial assets:

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	16	-	-	16
Standard grade	345	-	-	345
Sub-standard grade	57	1,793	-	1,850
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	872	872
Total	**418**	**1,793**	**872**	**3,083**

18. Provision (continued)

Movement for impairment allowance for off-balance sheet financial assets:

	31 December 2018			
	Financial guarantees	Letters of credit and acceptances	Other undrawn commitments	Total
At 1 January 2018	**4,426**	**85**	**-**	**4,511**
Charge for the year	(394)	(64)	-	(458)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Unwind of transformed into cash	(970)	-	-	(970)
Unwind of discount (recognized in interest income)	-			-
At 31 December 2018	**3,062**	**21**	**-**	**3,083**

19. 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 22% (31 December 2017: 20%). The tax legislation provides for a temporary tax of 22% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

Income tax recognised in the income statement

The components of income tax expense as stated below:

	31 December 2018	31 December 2017
Current tax		
Current income tax	(17,269)	(14,052)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(1,176)	338
Income tax expense reported in the income statement	**(18,445)**	**(13,714)**

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19. Taxation (continued)

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 2018 and 31 December 2017 is as follows:

	31 December 2018	31 December 2017
Profit before income tax	83,435	68,005
Income tax using the domestic corporate tax rate (*)	(18,356)	(13,601)
Other	1,087	(113)
Total income tax expense in the profit or loss	**(17,269)**	**(13,714)**

(*) 22% and 20% are the domestic corporate tax rate as of December 31, 2018 and 2017 respectively.

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

	31 December 2018	31 December 2017
Deferred tax assets / (liability), net at 1 January	2,882	3,082
Deferred tax recognised in the profit or loss	(1,176)	338
Deferred income tax recognised in other comprehensive income	326	(164)
Deferred tax assets/(liabilities), net at end of December	**2,032**	**3,256**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2018			31 December 2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Liability for employee benefits	542	-	542	379	-	379
Valuation of financial assets at FVOCI	(161)	-	-	-	-	-
Economic life property and equipment	-	(254)	(254)	-	(171)	(171)
Derivatives	2,389	-	2,389	3,737	-	3,737
Other	-	(484)	(484)	(689)	-	(689)
	2,770	**(738)**	**2,032**	**3,427**	**(171)**	**3,256**

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20. 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 2018; commitments and contingencies comprised the following:

	31 December 2018	31 December 2017
Letters of guarantee	788,930	552,202
Bank acceptance	1,825	3,183
Letters of credit	4,044	51,052
Other commitments	-	273
Total	**794,799**	**606,710**

21. Share capital and reserves

Share capital

As at 31 December 2018 and 31 December 2017, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Nurol Holding A.Ş.	125,052	78	97,697	78
Nurol İnşaat ve Tic. A.Ş.	25,536	16	19,950	16
Others	9,412	6	7,353	6
Total	**160,000**		**125,000**	

21. Share capital and reserves (continued)

Share capital (continued)

The Parent Bank's paid in capital has been increased by TL 35,000 provided from internal sources in the current period (January 1- December 31, 2017: The Parent Bank's paid in capital has been increased by TL 80,000 provided from internal resources).

As at 31 December 2018, the authorised share capital comprised of 160,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2017, the authorised share capital comprised of 125,000 ordinary shares having a par value of TL full 1,000). 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 2018, the Group's legal reserves amounted to TL 7,374 (31 December 2017 – TL 4,500).

Fair value through other comprehensive income ("FVOCI") reserves

The fair value through other comprehensive income includes the cumulative net change in the fair value of other comprehensive income for sale investments until the investment is derecognised or impaired.

Movement in fair value through comprehensive income reserve is as follows:

At 31 December 2017	**30,988**
At 1 January 2018	30,988
Change in fair value through other comprehensive income (net of tax)	(19,079)
At 31 December 2018	**11,909**

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22. Net interest income

	31 December 2018	31 December 2017
Interest income		
Loans and advances to customers	327,506	185,456
Deposits with banks and other financial institutions	14,119	4,952
Financial assets measured at fair value through profit/loss and financial assets	16,324	12,089
measured at fair value through other comprehensive income	-	-
Financial leases	21,174	509
Other	**379,123**	**203,006**
Interest expense		
Funds borrowed	44,674	14,398
Debt securities issued	131,050	81,941
Interbank funds borrowed	6,374	2,211
Other	22,329	818
	204,427	**99,368**
Net interest income	**174,696**	**103,638**

23. Net fee and commission income

	31 December 2018	31 December 2017
Fee and commission income		
Non-cash loans	13,785	8,368
Other	8,167	17,467
Total fee and commission income	**21,952**	**25,835**
Fee and commission expense		
Non-cash loans	866	746
Other	9,879	15,280
Total fee and commission expense	**10,745**	**16,026**
Net fee and commission income	**11,207**	**9,809**

24. Net trading income/loss

	31 December 2018	31 December 2017
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(20,777)	1,546
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss	(30,845)	(14,669)
Gain / (losses) from derivatives	54,234	(28,777)
Gain / (losses) from FX losses	(85,079)	14,108
Total	**(51,622)**	**(13,123)**

25. Other operating income

	31 December 2018	31 December 2017
Fair value gain on investment properties (***)	16,863	-
Rent	3,453	-
Dividend	151	-
Communication expenses reflected to the customers	26	-
Reversal of provision	19	169
Gain on purchase right (**)	-	-
Gain on Increase in purchase right (*)	-	6,931
Other	2,097	1,171
	22,609	**8,271**

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

(**) 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.

(***) As of 30 November 2015, the Parent Bank transferred the loan which is classified in the portfolio of overdue receivables amounting to TL 9,035, to an asset management company through revenue sharing method. The Parent Bank made provision amounting to TL 2,259 to the unguaranteed portion of these transferred receivables before transfer with revenue sharing method. As of 31 December 2017, the Parent Bank recognized aforementioned receivables as transferred asset in "loan and advances to customers" line. In the current period, the Parent Bank purchased the property which was obtained by the asset management company by levy, on account of revenue sharing agreement and receivables. The Parent Bank started monitoring that property under the investment property account with re-evaluating the appraisal report (appraisement value: TL 29,400).

26. Other provision expenses

	1 January - 31 December 2018	1 January - 31 December 2017
Bonus expenses	3,279	-
Unused vacation expenses	538	203
Other expenses	376	553
Total	**4,193**	**756**

27. Personnel expenses

	31 December 2018	31 December 2017
Wages and salaries	14,284	10,890
Compulsory social security obligations	1,134	1,002
Other benefits	1,266	2,725
Total	**16,684**	**14,618**

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28. Administrative expenses

	31 December 2018	31 December 2017
Nurol Holding re-charges	9,749	7,005
Audit and advisory expenses	4,703	2,446
Taxes and duties expenses	3,264	2,336
Rent expenses	2,299	1,489
Telecommunication expenses	1,477	1,131
Expenses made for non performing loans	1,083	-
Computer expenses	1,050	923
Maintenance expenses	526	201
Marketing expenses	293	290
Notary expenses	144	688
Advertising expenses	69	95
Transportation expenses	-	388
Other various administrative expenses	4,755	1,695
Total	**29,412**	**18,687**

29. 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 Bank'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

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29. Financial risk management objectives and policies (Continued)

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.

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 Parent Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions, In addition to that, the Parent Bank 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.

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups

	Individual	Corporate	Total
31 December 2018			
Performing loans	1,542	1,415,487	1,417,029
Loans under close monitoring	-	124,910	124,910
Non-performing loans	-	152,285	152,285
Gross	**1,542**	**1,692,682**	**1,694,224**
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(2,364)	(2,364)
Generic provisions for Stage 1 and Stage 2	-	(9,143)	(9,143)
Total	**1,542**	**1,681,175**	**1,682,717**
31 December 2017			
Performing loans	77	1,053,237	1,053,304
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**

Exposure to credit risk

		Due from banks		Loans and advances to customers	
	Notes	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Carrying amount	-	**82,382**	**23,230**	**1,682,717**	**1,060,453**
Non-performing financial assets	-	-	-	152,285	3,267
Gross amount	-	-	-	**152,285**	**3,267**
Specific provision for Stage 3	9	-	-	(2,364)	(3,235)
Generic provision for Stage 1 and 2	9	(6)	-	(9,143)	(7,943)
Neither past due nor impaired	-	82,376	23,230	1,584,785	979,959
Carrying amount	-	**82,376**	**23,230**	**1,584,785**	**979,959**
Restructured and rescheduled loans and other receivables	-	-	-	97,932	88,405
Carrying amount	-	-	-	**97,932**	**88,405**
Carrying amount (amortised cost)	-	**82,376**	**23,230**	**1,682,717**	**1,060,453**

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29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

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. The breakdown of financial assets by type of collateral is as follows:

31 December 2018		Collaterals after rate of consideration								
Type of collateral or credit enhancement	Maximum exposure to credit risk	Cash	Securities (Cheques Acts&Stock Share)	Property (Mortgages)	Assignment of receivables	Vehicle Pledge	Other	Total collateral	Net exposure	Associated ECLs
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	629,934	-	-	-	-	-	-	-	629,928	6
Loans and advances to customers	2,377,508	3,729	149,748	94,742	161,285	90,781	2,112	502,398	1,875,110	11,507
of which : Large corporate clients	2,079,654	3,729	92,640	91,487	151,179	90,781	2,112	431,929	1,647,725	11,454
of which : SME clients	31,881	-	2,342	3,255	10,106	-	-	15,703	16,179	5
of which : Others	265,972	-	54,766	-	-	-	-	54,766	211,206	48
Other financial assets	2,271	-	-	-	-	-	-	-	2,271	34
Derivative financial instruments	24,929	-	-	-	-	-	-	-	24,929	-
Securities at fair value through OCI	80,530	-	-	-	-	-	-	-	80,431	99
Guarantees (after Credit Conversion Factor)	450,449	11,859	16,193	13,757	5,406	-	-	47,215	403,234	2,190
LCs and Acceptances (after Credit Conversion Factor)	2,934	-	-	-	-	-	-	-	2,934	21

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups (continued)

Cash loans	**31 December 2017**
Secured cash loans	915,672
Secured by cash collateral	87,537
3rd party guarantees	170,358
Secured by mortgages	191,273
Secured by customer cheques & acts	171,636
Vehicle pledge	54,858
Marketable securities	96,832
Assignment of receivables	143,174
Non-secured cash loans	122,949
Accrued interest income on loans	21,832
Total performing cash loans	**1,060,453**

Non-cash loans(*)	**31 December 2017**
Secured non-cash loans	279,887
Personal guarantees	-
Secured by cash collateral	1,010
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
Total non-cash loans	**552,202**

The Parent Bank's internal credit rating grades

The Bank's independent Credit Risk Department operates its internal rating models. The Parent Bank runs models for its key portfolios in which its customers are rate from 1 to 100 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the PDs within the Parent Bank's IFRS 9 ECL calculation.

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29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Internal rating grades of the Parent Bank:

Cash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Average Exposure at default	Average PDs	Average LGD
Performing							
100-90	Highest	High grade	0.0001-0.02	AAA	30,227	0.00%	45.00%
89-87	Very high+	High grade	0.0001-0.02	AA+	-	-	-
86-84	Very high	High grade	0.0001-0.02	AA	25,340	0.00%	45.00%
83-81	Very high-	High grade	0.0001-0.03	AA-	3,935	-	-
80-78	High+	High grade	0.0001-0.05	A+	900,922	0.03%	38.31%
77-75	High	High grade	0.0002-0.06	A	-	-	-
74-72	High-	High grade	0.0002-0.07	A-	38,105	0.02%	45.00%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	100,088	0.03%	36.16%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	185,370	0.06%	39.73%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	406,941	0.20%	30.50%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	82,874	0.27%	43.01%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	185,120	0.07%	42.52%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	135,112	1.93%	18.17%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	25,833	1.93%	1.65%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	28,773	3.59%	0.03%
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	111,940	4.16%	28.59%
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	58,770	68.76%	20.56%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	554	56.91%	43.66%
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	-	-
Total Performing					**2,319,905**	**2.20%**	**21.17%**
Non-performing							
29-0	In default		100-100	D	165,858	100.00%	1.43%
Total Nonperforming					**165,858**	**100.00%**	**100.00%**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups (continued)

Noncash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Average Exposure at default (after CCF)	Average PDs	Average LGD
Stage 1 & Stage 2							
100-90	Highest	High grade	0.0001-0.02	AAA	-	-	-
89-87	Very high+	High grade	0.0001-0.02	AA+	-	-	-
86-84	Very high	High grade	0.0001-0.02	AA	112	0.02%	45.00%
83-81	Very high-	High grade	0.0001-0.03	AA-	2,031	0.03%	45.00%
80-78	High+	High grade	0.0001-0.05	A+	25,065	0.07%	44.25%
77-75	High	High grade	0.0002-0.06	A	1,148	0.06%	45.00%
74-72	High-	High grade	0.0002-0.07	A-	27,307	0.07%	45.00%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	60,648	0.10%	44.98%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	39.194	0.19%	25.41%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	123,124	0.17%	43.01%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	79,007	0.26%	45.00%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	42,592	0.36%	43.96%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	16,958	0.98%	45.00%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	4,743	2.60%	34.46%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	1,279	4.18%	40.26%
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	-	-	-
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	11,583	41.26%	45.00%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	-	-	-
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	-	-
Total Stage 1 & 2					**434,793**	**1.35%**	**44.38%**

Noncash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Total Exposure	Average PDs	Average LGD
Stage 3							
29-0	In default		100-100	D	7,312	100.00%	11.92%
Total Stage 3					**7,312**	**100.00%**	**11.92%**

29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

The following tables provide a summary of the Parent Bank's restructured loans

31 December 2018	Stage 2					Stage 3				
	Total forborne loans	Temporary modification to T&C's(**)	Permanent modification to T&C's (**)	Refinancing (**)	Total non performing forborne loans(**)	Temporary modification to T&C's(**)	Permanent modification to T&C's (**)	Refinancing (**)	Total non performing forborne loans(**)	Total forborne loans
Due from banks	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	**97,932**	-	**7,018**	-	**7,018**	-	-	-	-	**7,018**
Large corporate clients	9	-	7,018	-	7,018	-	-	-	-	7,018
SME Clients	7,932	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
Total loans and advances to customers	**97,932**	-	**7,018**	-	**7,018**	-	-	-	-	**7,018**

(*) Includes the balance of restructured loans
(**) Includes the expected credit losses amount of restructured loans

	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	POCI	Total
Per portfolio							
Debt instruments at FVOCI	-	-	-	-	-	-	-
Debt instruments at amortized cost	-	-	-	-	-	-	-
Due from banks	-	-	-	-	-	-	-
Loan and advances to customer	-	-	-	-	**152,285**	-	-
Large corporate clients	-	-	-	-	152,285	-	-
SME clients	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Noncash loans	-	-	-	-	**7,312**	-	-
Financial guarantees	-	-	-	-	7,312	-	-
Letters of credit	-	-	-	-	-	-	-
Undrawn commitments to lend	-	-	-	-	-	-	-
Per industry segment							
Financial services	-	-	-	-	-	-	-
Tourism	-	-	-	-	152,285	-	-
Consumers	-	-	-	-	-	-	-
Retail and wholesale	-	-	-	-	-	-	-
Construction	-	-	-	-	6,232	-	-
Oil and gas	-	-	-	-	1,001	-	-
Other	-	-	-	-	79	-	-

(Currency - In thousands of Turkish Lira)

29. 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	
	2018	**2017**	**2018**	**2017**
Banks	82,376	23,230	40,152	-
Manufacturing	-	-	40,137	16,568
Production	-	-	40,137	16,568
Construction	-	-	205,714	218,505
Services	-	-	882,489	654,845
Wholesale and retail trade	-	-	93,042	152,797
Hotel food and beverage services	-	-	16,079	114,965
Financial institutions	-	-	434,331	359,623
Communication services	-	-	111,954	25,163
Health and social services	-	-	1,823	2,387
Renting Service	-	-	225,260	-
Other	-	-	364,304	170,503
Non-performing loans net	-	-	149,921	32
Total	**82,376**	**23,230**	**1,682,717**	**1,060,453**

		Due from banks		Loans and advances to customers	
	Notes	**2018**	**2017**	**2018**	**2017**
Turkey	-	25,340	12,661	1,297,618	881,218
Europe	-	30,297	8,852	88,745	25,163
Other	-	26,739	1,717	296,354	154,042
	6, 9	**82,376**	**23,230**	**1,682,717**	**1,060,453**

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29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Information by major sectors and type of counterparties

Financial assets are assessed in 3 stages based on IFRS 9 as explained in accounting policy note 4 "Calculation of expected credit losses". In this respect, the life time expected credit losses are recognized for impaired loans (stage 3) and the probability of default is considered to be 100%.

When the loan is not under default yet, but there is a significant increase in the credit risk since origination date, the life time expected credit losses are calculated for these loans (stage 2).

Regarding the remaining financial assets within the scope of IFRS 9, the 12-month estimated probability of default is calculated and the loss allowance for these loans (stage 1) is measured at an amount equal to 12-month (after the reporting date) expected credit losses.

	Loans(*)		
Sectors	Significant increase in credit risk (Stage 2)	Defaulted (Stage 3)	Expected Credit Losses (IFRS 9)
1. Agriculture	-	-	-
1.1. Farming and Stockbreeding	-	-	-
1.2. Forestry	-	-	-
1.3. Fishery	-	-	-
2. Manufacturing	1,136	-	40
2.1. Mining and Quarrying	-	-	-
2.2. Production	1,136	-	40
2.3. Electricity, Gas and Water	-	-	-
3. Construction	36,613	-	6,344
4. Services	85,838	152,285	675
4.1. Wholesale and Retail Trade	-	-	-
4.2. Hotel food and beverage services	-	128,590	-
4.3. Communication Services	-	-	-
4.4. Financial Institutions	37,529	695	366
4.5. Renting Services	46,450	23,000	2,637
4.6. Professional Services	-	-	-
4.7. Educational Services	-	-	-
4.8. Health and Social Services	1,859	-	36
5. Other	1,323	-	126
6. Total	124,910	152,285	9,549

(*) Including only cash loans.

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29. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Macroeconomic Scenario Analysis

Key Drivers	ECL Scenario	Assigned Probabilities	2019	2020	2021	2022	2023	Subsequent Years
CDS Turkey- 5 Year	%	%	%	%	%	%	%	%
	Upside	30	2.00	1.96	1.92	1.88	1.84	1.80
	Base Case	50	3.00	2.97	2.94	2.91	2.88	2.85
	Downside 1	10	3.86	4.05	3.85	4.04	3.84	4.03
	Downside 2	10	4.61	5.07	4.56	5.02	4.52	4.97

Fair value through profit or loss (FVTPL)

At 31 December 2018, the Parent Bank has derivative financial assets at FVTPL amounting to TL 24,929
(31 December 2017 – TL 1,665). An analysis of the credit quality of the maximum credit exposure is as follows:

	31 December 2018	31 December 2017
Derivative financial assets	24,929	1,665
Fair value and carrying amount	**24,929**	**1,665**

c) 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, 2015, 2016 and 2017. The amount calculated as TL 140,160 as at 31 December 2018 (31 December 2017 - TL 101,003) represents the operational risk that the Group may expose and the amount of minimum capital requirement to eliminate this risk.

29. Financial risk management objectives and policies (continued)

d) Capital management

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

The 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 banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.

- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of financial assets measured at fair value through other comprehensive income 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 the Group's 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 2018	31 December 2017
Amount subject to credit risk (I)	2,147,685	1,449,011
Amount subject to market risk (II)	36,893	51,433
Amount subject to operational risk (III)	140,160	101,003
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**2,324,738**	**1,601,447**
Shareholders' equity:		
Tier 1 capital	263,502	219,195
Tier 2 capital	90,708	69,846
Total regulatory capital	**354,210**	**289,041**
Capital adequacy ratio	**15.24%**	**18.05%**

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29. Financial risk management objectives and policies (continued)

e) 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	FVOCI	Other amortised cost	Total carrying amount	Fair value
2018		-					
Cash and cash equivalents	*6*	-	308,898	-	-	308,898	308,898
Reserve deposits at Central Bank	*7*	-	321,030	-	-	321,030	321,030
FVTPL investments		24,929					
FVOCI financial assets	*8*	-	-	80,431	-	80,431	80,431
Loans and advances to customers(1)	*9*	-	1,682,717	-	-	1,682,717	1,682,717
Other asset		-	-	-	185,156	185,156	185,156
		24,929					
Funds borrowed	*14*	-	-	-	909,077	976,608	976,608
Debt securities issued(1)	*15*	-	-	-	736,306	736,306	736,306
Derivative financial liabilities		37,257	-	-	-	37,257	37,257
Other liabilities	*17*	-	-	-	618,939	618,939	618,939
		37,257	-	-	**2,264,322**	**2,301,579**	**2,301,579**

(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.

	Notes	Trading	Loans and receivables	Available for 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
Held for trading investments		1,665	-	-	-	1,665	1,665
Available for sale investments	*8*	-	-	136,519	-	136,519	136,519
Loans and advances to customers(1)	*9*	-	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**
	14						
Funds borrowed	*15*	-	-	-	462,441	462,441	506,699
Debt securities issued(1)		-	-	-	638,849	638,849	638,849
Derivative financial liabilities	*17*	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.

29. Financial risk management objectives and policies (continued)

e) Fair values (continued)

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.

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.

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29. Financial risk management objectives and policies (continued)

d) Fair values (continued)

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

31 December 2018	Note	Level 1	Level 2	Level 3	Total
Derivative financial assets		24,929	-	-	24,929
Financial assets measured at fair value through other comprehensive income	8	80,431	-	-	80,431
Investment property		-	34,385	-	34,385
Derivative financial liabilities		-	37,257	-	37,257

31 December 2018	Note	Level 1	Level 2	Level 3	Total
Derivative financial assets		-	1,665	-	1,665
Available for sale investments		136,519	-	-	136,519
Investment property	8	-	-	4,440	4,440
Derivative financial liabilities		-	18,831	-	18,831

e) 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 Parent Bank'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 2018 and 31 December 2017 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:

	2018			2017		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	3,201	4,280	1,660	4,388	5,523	3,550
Equity price risk	-	-	-	-	-	-
Currency risk	1,641	4,890	265	512	952	80
Counter party risk	-	-	-	-	-	-
Total value-at-risk	**4,642**	**9,170**	**1,925**	**4,900**	**6,475**	**3,630**

29. Financial risk management objectives and policies (continued)

e) 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
2018				
Assets				
Cash and cash equivalents	98,224	206,337	3,564	308,124
Reserve deposits at Central Bank	36,747	50,585	-	87,333
Loans and advances to customers	45,037	432,672	-	477,709
Available for sale investments	38,061	15,389	-	53,450
Other assets	138,683	15	-	138,698
Total assets	**356,752**	**704,998**	**3,564**	**1,065,314**
Liabilities				
Funds borrowed	256,523	255,074	3,507	515,103
Subordinated debts	80,254	-	-	80,254
Other liabilities	29,315	561,588	-	590,904
Total liabilities	**366,092**	**816,662**	**3,507**	**1,186,261**
Gross exposure	**(9,340)**	**(111,664)**	**57**	**(120,947)**
Off-balance sheet position				
Net notional amount of derivatives	6,444	117,929	-	124,373
Net exposure	**(2,896)**	**6,265**	**57**	**3,426**

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Currency risk (continued)

	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**

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2018 and 31 December 2017 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.

2018	Equity	Profit or loss
EUR	627	627
USD	(290)	(392)
Other currencies	6	6
Total	**343**	**241**

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

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

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.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

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

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2018 and 31 December 2017:

	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 2018							
Assets							
Cash and cash equivalents	275,955	-	-	-	-	32,943	308,898
Reserve deposits at Central Bank	87,333	-	-	-	-	233,697	321,030
FVTPL investments	24,906	23	-	-	-	-	24,929
Financial assets at fair value through other comprehensive income	4,955	53,950	655	1,011	-	19,860	80,431
Loans and advances to customers	649,507	36,464	627,201	320,708	41,079	7,758	1,682,717
Other assets	-	-	-	-	-	261,482	261,482
Total assets	**1,042,656**	**90,437**	**627,856**	**321,719**	**41,079**	**555,740**	**2,679,487**
Liabilities							
Funds borrowed(*)	435,718	119,431	157,524	-	49,876	173,002	935,550
Debt securities issued(**)	115,724	377,195	172,860	-	124,308	-	790,087
Other liabilities(***)	346,834	252,385	9,123	-	-	315,657	953,850
Total liabilities	**898,276**	**749,011**	**339,507**	-	**174,184**	**488,659**	**2,679,487**
On balance sheet interest sensitivity gap	144,380	(658,574)	288,349	321,719	(133,105)	67,081	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**144,380**	**(658,574)**	**288,349**	**321,719**	**(133,105)**	**67,081**	-

(*) Includes subordinated loans amounting to TL 26,473.
(**) Includes subordinated bonds amounting to TL 53,781.
(***) Derivative financial instruments are included in other liabilities.

29. Financial risk management objectives and policies (continued)

e) 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 2017							
Assets							
Cash and cash equivalents	11,317	452	-	-	-	14,913	26,682
Reserve deposits at Central Bank	58,895	-	-	-	-	253,397	312,292
FVTPL investments	1,075	590	-	-	-	-	1,665
Available for sale investments	1,975	5,536	86,344	-	5,042	37,622	136,519
Loans and advances to customers	325,081	131,237	160,172	370,650	73,313	-	1,060,453
Other assets	-	-	-	-	-	156,549	156,549
Total assets	**398,343**	**137,815**	**246,516**	**370,650**	**78,355**	**462,481**	**1,694,160**
Liabilities							
Funds borrowed (*)	81,361	123,561	99,632	49,133	37,797	89,858	481,342
Debt securities issued(**)	107,644	292,706	242,577	34,288	-	-	677,215
Other liabilities(***)	7,987	2,496	-	8,348	-	516,772	535,604
Total liabilities	**196,992**	**418,763**	**342,209**	**91,769**	**37,797**	**606,630**	**1,694,160**
On balance sheet interest sensitivity gap	201,351	(280,948)	(95,693)	278,881	40,558	(144,148)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**201,351**	**(280,948)**	**(95,693)**	**278,881**	**40,558**	**(144,148)**	-

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

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(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Summary of average interest rates

As at 31 December 2018 and 31 December 2017, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2018			31 December 2017		
	Euro	USD	TL	Euro	USD	TL
Assets						
Cash and balances with the Central Bank	-	1.50	13.00	-	1.5	3.85
Due from banks	0.04	2.00	18.92	0.05	1.15	11.92
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	19.72	-	-	-
FVTOCI investments	8.07	11.17	15.32	-	9.72	14.01
Loans and advances to customers	6.41	10.44	25.83	6.52	9.81	17.82
Other	-	-	-	-	-	-
Liabilities						
Other money market deposits	-	-	-	-	-	-
Funds borrowed	4.68	6.41	19.89	2.87	5.16	14.13
Debt securities issued	-	10.00	17.15	-	10.00	13.11
Funds from other financial institutions	2.34	4.56	20.32	2.69	4.09	11.94

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.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

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 2018 and 2017 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency (%)	Total (%)	Foreign currency (%)	Total (%)
2018 average	203	249	111	139
2017 average	222	253	113	144

As at 31 December 2018 and 31 December 2017, the following table provides the contractual maturities of the Group's financial liabilities.

	31 December 2018						
	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	909,077	1,097,834	928,888	137,946	-	-	31,000
Debt securities Issued	736,306	765,839	761,730	4,109	-	-	-
	1,645,383	**1,863,673**	**1,690,618**	**142,055**	**-**	**-**	**31,000**

	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**

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Exposure to liquidity risk

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

31 December 2018	Demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	32,943	275,955	-	-	-	-	-	308,898
Reserve deposits	233,697	87,333	-	-	-	-	-	321,030
FVTPL investments	-	9,739	14,473	717	-	-	-	24,929
Available for sale investments	-	-	21,201	655	1,011	37,704	19,860	80,431
Loans and advances to customers	-	649,507	36,464	627,201	361,787	-	7,758	1,682,717
Other assets	73	213,639	-	-	-	-	47,770	261,482
Total assets	**266,713**	**1,236,173**	**72,138**	**628,573**	**362,798**	**37,704**	**75,388**	**2,679,487**
Funds borrowed (*)	173,002	435,718	119,431	157,524	-	49,876	-	935,550
Debt securities issued(**)	-	115,724	409,561	211,021	-	52,781	-	790,087
Other liabilities	54,621	346,826	282,235	9,123	-	-	261,044	953,850
Total liabilities	**227,623**	**898,268**	**811,227**	**377,668**	**-**	**103,657**	**261,044**	**2,679,484**
Liquidity gap	**39,090**	**337,905**	**(739,089)**	**250,905**	**362,798**	**(65,953)**	**(185,656)**	**-**
Off Balance Sheet Position	**-**	**(5,048)**	**(19,577)**	**(1,333)**	**(17,347)**	**-**	**-**	**(43,305)**
Receivables from derivatives	-	769,226	268,831	8,408	135,159	-	-	1,181,624
Liabilities from derivatives	-	774,274	288,408	9,741	152,506	-	-	1,224,929
Non cash loans	**-**	**1,169**	**139,495**	**97,451**	**11,370**	**545,314**	**-**	**794,799**

(*) Includes subordinated loans amounting to TL 26,473.
(**) Includes subordinated bonds amounting to TL 53,781.
(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

29. Financial risk management objectives and policies (continued)

e) Market risk (continued)

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**
								481,342
Funds borrowed (*)	89,858	81,362	123,560	99,632	49,133	37,797	-	677,215
Debt securities issued(**)	-	107,644	292,706	169,840	68,659	38,366	-	535,603
Other liabilities	53,034	158,226	74,933	14,719	8,349	-	226,342	
Total liabilities	**142,892**	**347,232**	**491,199**	**284,191**	**126,141**	**76,163**	**226,342**	**1,694,160**
	125,418	**197,716**	**(353,384)**	**(123,714)**	**244,509**	**88,231**	**(188,720)**	-
Liquidity gap	-	**(4,515)**	**(2,891)**	**(395)**	**1,452**	-	-	**(6,349)**
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.
(**) Includes Subordinated bonds amounting to TL 38,366.
(***) Derivative financial instruments are included in other liabilities.

30. 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 2018	Balance	Percentage of the financial statement amount (%)
Cash loans	145,500	9%
Non-cash loans	18,639	2%
Borrower funds / Funds borrowed	366,092	40%

31 December 2017	Balance	Percentage of the financial statement amount (%)
Cash loans	-	-
Non-cash loans	16,475	3%
Borrower funds / Funds borrowed	100,707	22%

31 December 2018	Balance	Percentage of the financial statement amount (%)
Interest income and commissions	49,090	13%
Other operating expense (-)	9,749	17%

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

As at 31 December 2018, no provisions have been recognised in respect of loans given to related parties (31 December 2017 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 8,677 comprising salaries and other benefits for the period 1 January-31 December 2018 (1 January - 31 December 2017: TL 6,658).

31. Events after balance sheet date

None.

Headquarters, Istanbul

Büyükdere Cad. No:255 Nurol Plaza Kat:15/1502
34485 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) 455 14 94
F: 0(312) 455 14 95