



MASTER OF THE CRAFT



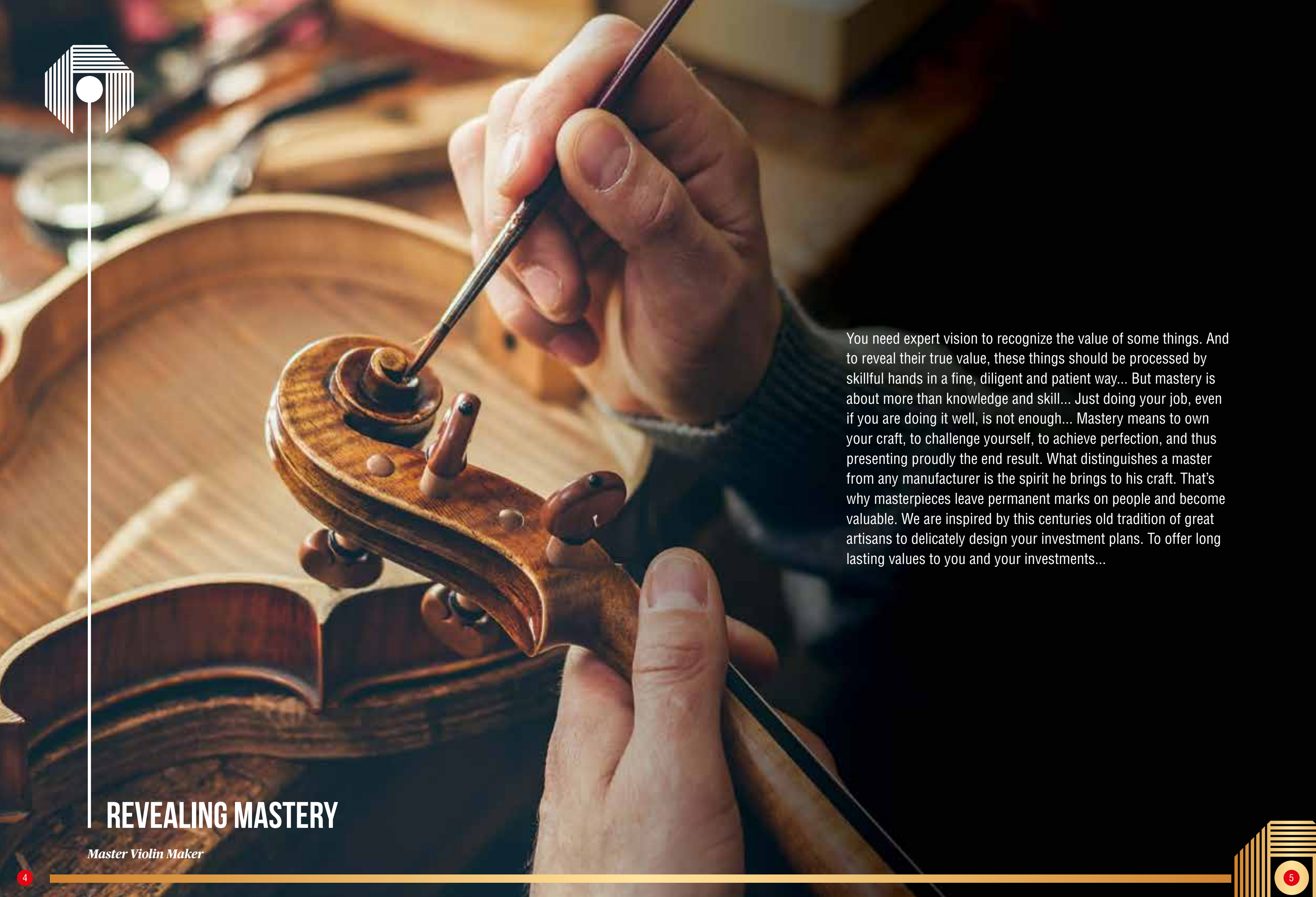
 **nurolBANK**
2019 ANNUAL REPORT



TABLE OF CONTENTS

Glassblowing Master

1	Foreword	05
	GENERAL INFORMATION	
	Our Bank	07
	About Us, Vision, Mission, Strategy	08-11
	Capital, Partnership and Shares of the Members of the Board and the Amendments made in the Main Agreement	13
	2020 Objectives of Nurobank	15
	Banking Services	16-17
	Our Milestones	20-21
	Financial Indicators	23
	Rating Note of the Rating Institution	24-33
	Sectoral Distribution of Total Risks	35
	Nurobank Activities in 2019 and Place in the Sector	36
	Primary Financial Indicators and Performance Ratios	37
	Opinions about the World and Turkish Economy	39
	Message from the Chairman of the Board	40-41
	Message from the General Manager	42-43
	Global Economy	45-47
	Turkish Economy	49-51
2	MANAGEMENT AND CORPORATE MANAGEMENT PRACTICES	
	Management and Committees	53
	Members of the Board of Directors	54-59
	Senior Management	60-65
	Committees of the Board of Directors	67-69
3	FINANCIAL INFORMATION and EVALUATIONS REGARDING RISK MANAGEMENT	
	Our Codes of Conduct	71
	Human Resources Practices	73
	Corporate Management Code of Ethical Practices	75-77
	Information regarding the transactions of the bank with the Risk Group	79
	Activities Supported by the Bank in accordance with the Regulation on Support Service Purchases	79
	Financial Information and Assessments on Risk Management	80-83
	Risk Management Policies applied as of the Risk Types	85-87
	Independent Auditor Report for the Annual Activity Report of the Board	88
	Ordinary General Assembly Agenda	89
4	INDEPENDENT AUDIT REPORT, CONSOLIDATED FINANCIAL TABLES and FOOTNOTES FOR THE FINANCIAL TABLES OF NUROL INVESTMENT BANK ANONİM ŞİRKETİ AS OF 31 DECEMBER 2019	91



You need expert vision to recognize the value of some things. And to reveal their true value, these things should be processed by skillful hands in a fine, diligent and patient way... But mastery is about more than knowledge and skill... Just doing your job, even if you are doing it well, is not enough... Mastery means to own your craft, to challenge yourself, to achieve perfection, and thus presenting proudly the end result. What distinguishes a master from any manufacturer is the spirit he brings to his craft. That's why masterpieces leave permanent marks on people and become valuable. We are inspired by this centuries old tradition of great artisans to delicately design your investment plans. To offer long lasting values to you and your investments...

REVEALING MASTERY

Master Violin Maker

OUR BANK



OUR BANK

Stone Carving Master



ABOUT US

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.

EXPERTISE BASED ON EXPERIENCE

Carpenter





OUR VISION, MISSION, 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.



BLENDING KNOWLEDGE WITH MASTERY

Master Blacksmith



WEAVING SUCCESS

Fisherman Fixing Fishing Net

CAPITAL, PARTNERSHIP STRUCTURE AND SHARE PROPORTIONS OF THE BOARD MEMBERS

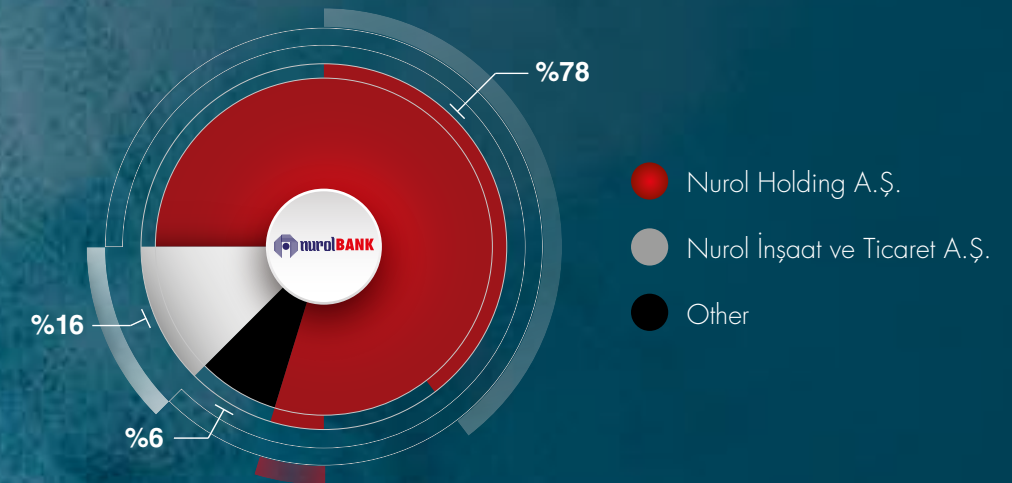
As of 31 December 2019, the shareholders and the capital structure are as follows:

Name and Surname / Trade Name	Number of Shares	Amount of Shares	Share Proportion %
Nurol Holding A.Ş.	236.947.113	236.947.113	%78,98
Nurol İnşaat ve Ticaret A.Ş.	50.112.000	50.112.000	%16,70
Nurol Otelcilik ve Turizm İşletmeleri A.Ş.	1.940.890	1.940.890	%0,65
Nurettin Çarmıklı	1.955.555	1.955.555	%0,65
Erol Çarmıklı	1.955.555	1.955.555	%0,65
Mehmet Oğuz Çarmıklı	1.955.555	1.955.555	%0,65
Eyüp Sabri Çarmıklı	1.711.111	1.711.111	%0,57
Oğuzhan Çarmıklı	1.711.111	1.711.111	%0,57
Gürol Çarmıklı	855.555	855.555	%0,29
Gürhan Çarmıklı	855.555	855.555	%0,29
Total	300.000.000	300.000.000	%100,00

The shares of the Chairman and Deputy Chairmen of the Board as of the end of 2019 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	%0,65
Eyup Sabri Carmikli - Board Member	1.244	%0,57
Gurhan Carmikli - Board Member	622	%0,29

NUROLBANK ORTAKLIK YAPISI



In accordance with the decision taken at the extraordinary general meeting held on 28.03.2019, the Capital of the company has been increased from 220,000,000.00 TL to 300,000,000.00 TL, and 65,000,000.00 TL (Sixty five million Turkish Liras) of this increase by Nurol Holding A.Ş. and 15,000,000.00 TL (Fifteen million Turkish Liras) is increased by the company partner, Nurol İnşaat ve Ticaret A.Ş., from the cash capital without collusion.

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 31.12.2019 with no. 275038 was unanimously accepted as it was approved by the Ministry.



CREATING VALUABLE WORKS

Master Rug-Weaver

NUROLBANK'S OBJECTIVES AND EXPECTATIONS IN 2020

- They are identified as 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.



OUR BANKING SERVICES

Project Financing 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 2020 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.

OUR BANKING SERVICES

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.

2019 was a year in which significant volume increases took place in important fields of activity for Treasury Department as it was in 2018. 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 2019, the Treasury Department of Nurol Investment Bank successfully achieved sustainable profitability by increasing efficiency.

In 2020, 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 2020 with our expert team and innovative approach.

Financial Institutions and Investor Relations

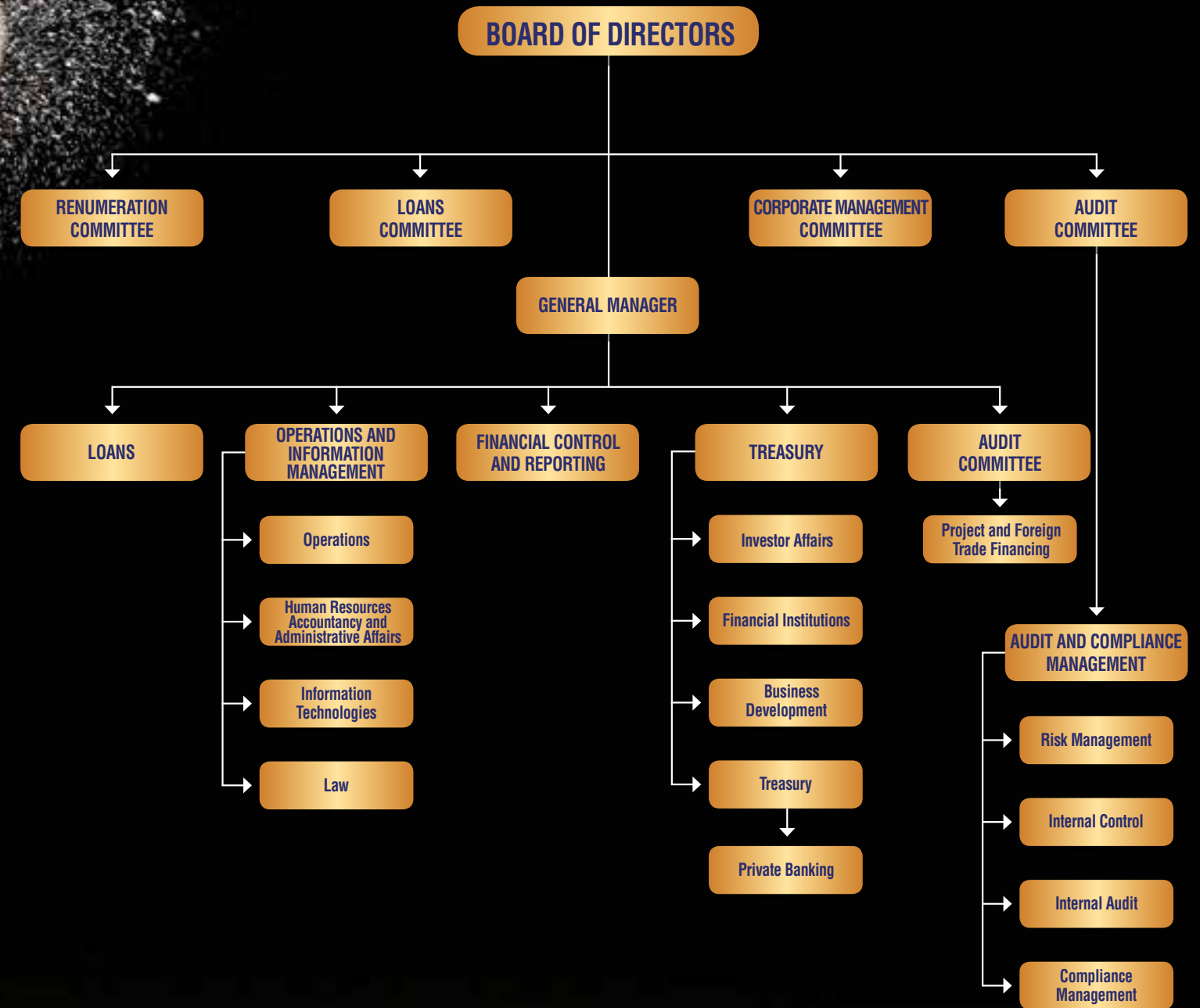
Department of Financial Institutions and Investor Affairs carries out debt instrument issuances of the Bank through Capital Markets which enable better recognition of the Bank in national and international markets by larger masses, conducting relations of Nurol Investment Bank with domestic and foreign 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 2019, a total of 2.5 Billion TL borrowing was realized through the issuance of 39 separate debt instruments.

2019, 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 2019, 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 904 Million TL and constituted an important position in the liability items of the bank.

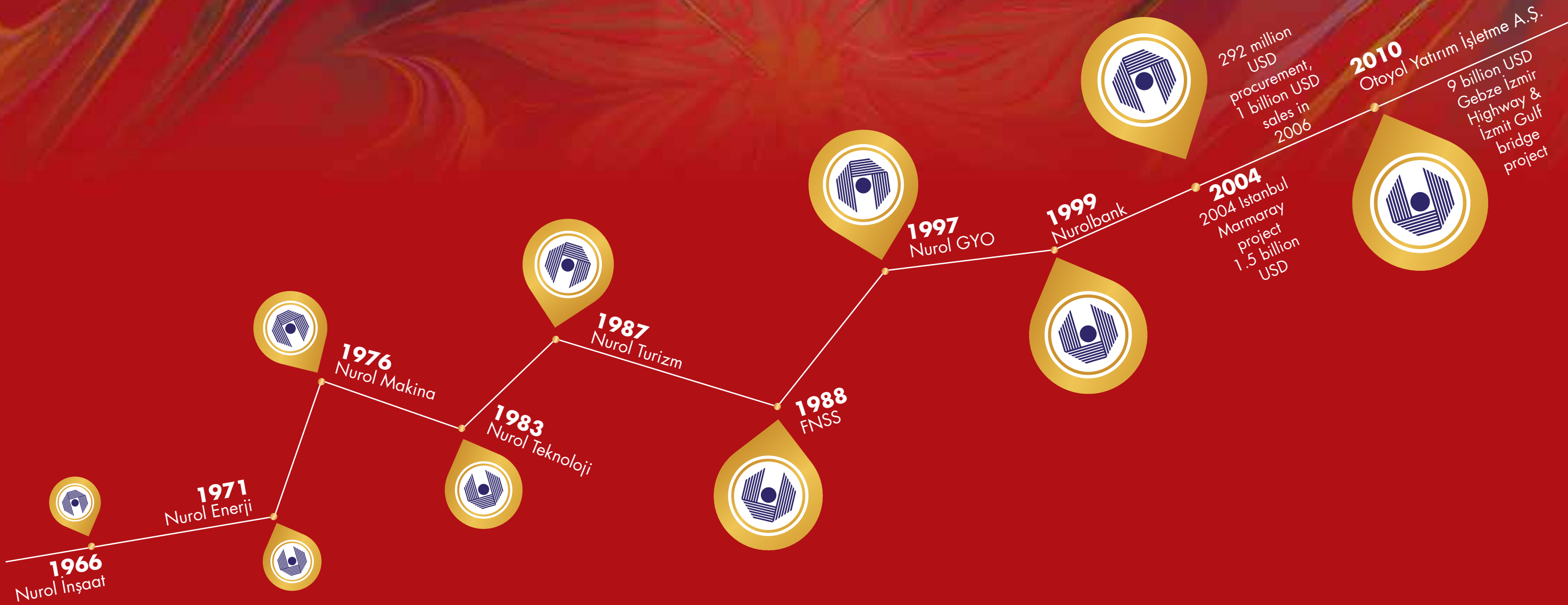
Research and development applications regarding new services and activities

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

FINANCIAL INDICATORS



MASTERING YOUR CRAFT

Relief Master

RATING NOTE OF THE CREDIT RATING INSTITUTION

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-’.

Nurol investment bank A.Ş.’s desire to be supported by its partners and the level of financial power of the partners and its rating in the independence category regarding the ability to manage the risks assumed by the Bank on its own basis were determined as (AB). The (AB) rating in the independence category indicates the “High” level in the notation system of JCR Eurasia Rating, while the rating in the support category indicates that the possibility of external support is at the “High” level.

RATING		Long Term	Short Term	
International	Foreign Currency	BBB-	A-3	
	Turkish Lira	BBB	A-3	
	Appearance	YP	Negative	Negative
		TP	Negative	Negative
Export Grade	-	-		
National	National Grade	AA(Trk)	A-1(Trk)	
	Appearance	Stable	Stable	
	Export Grade	AA(Trk)	A-1(Trk)	
Supporting Note		1	-	
Independency Note From The Partners		A B	-	



REFLECTION OF MASTERY

RETURN ON ASSETS RATIO 31 DECEMBER 2019 (PER PROFIT BEFORE TAX)



RETURN ON EQUITY RATIO 31 DECEMBER 2019 (PER PROFIT BEFORE TAX)

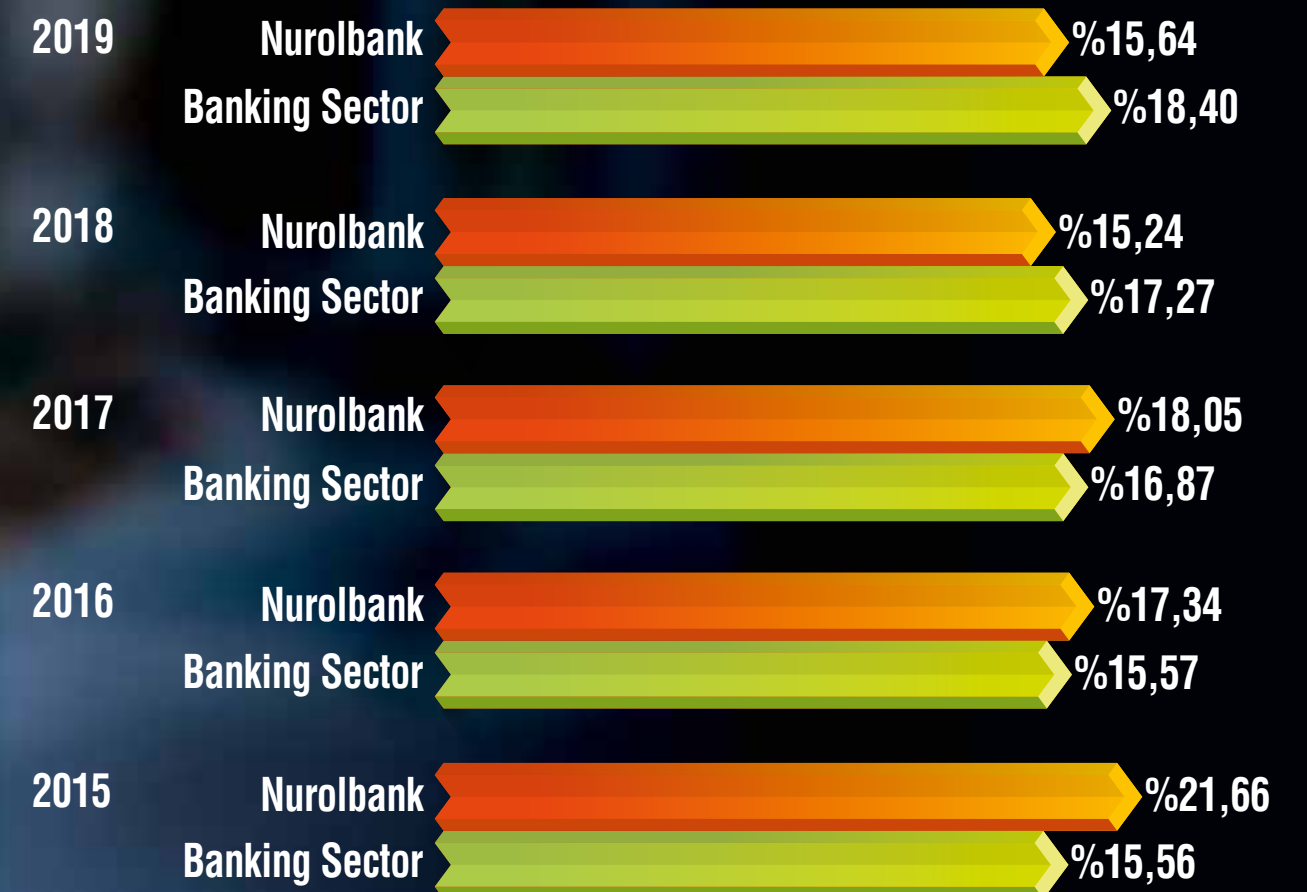




COMBINING TECHNIQUE AND SKILLS

Glassblowing Master

CAPITAL ADEQUACY RATIO

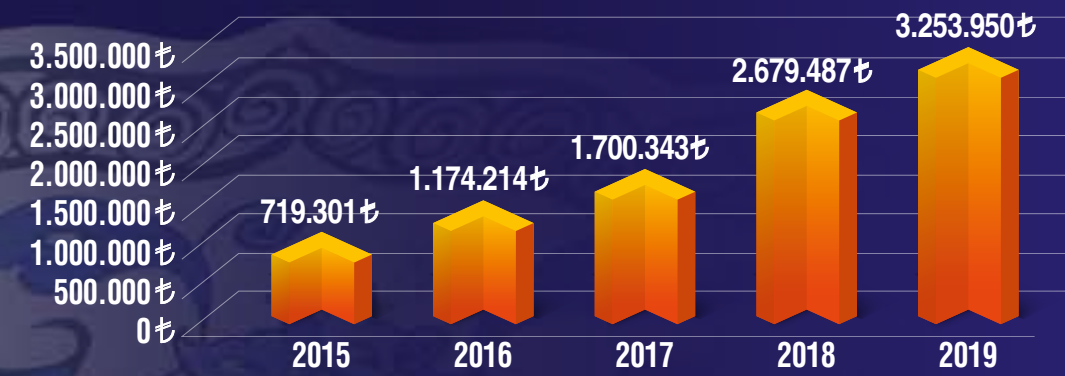




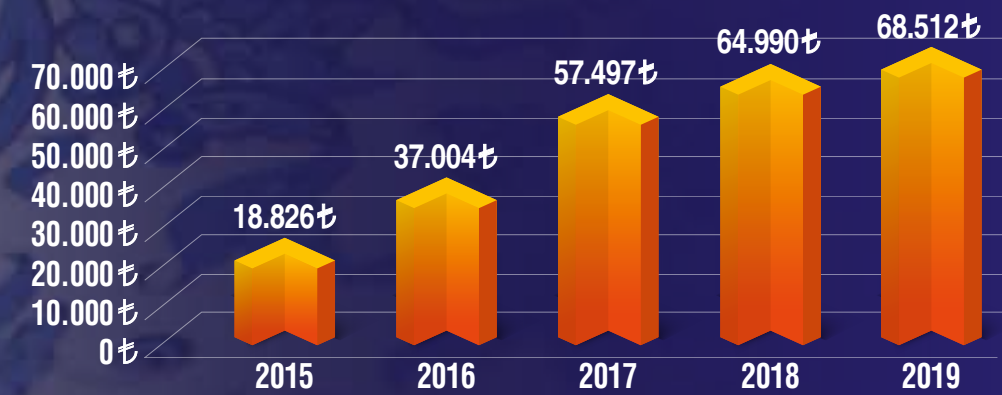
PAYING ATTENTION TO DETAILS

Master of Turkish Ceramic Tile

TOTAL ASSETS (TL)



NET PROFIT (TL)



TOTAL LOANS (TL)

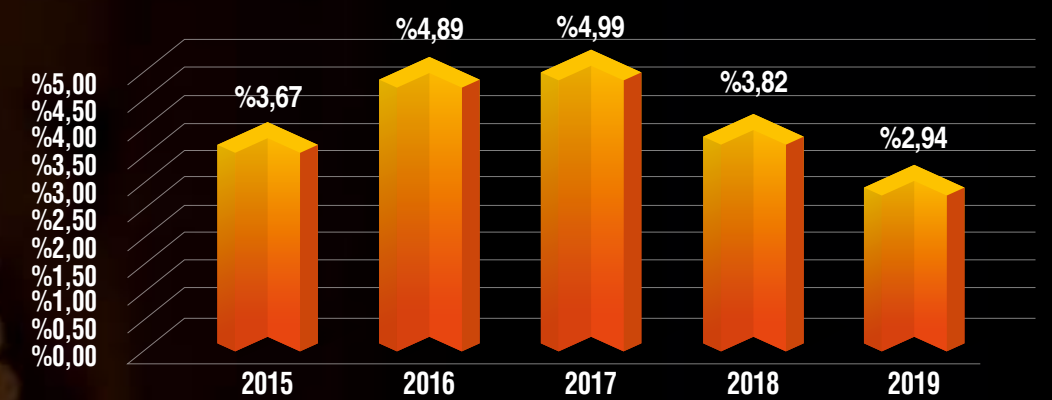




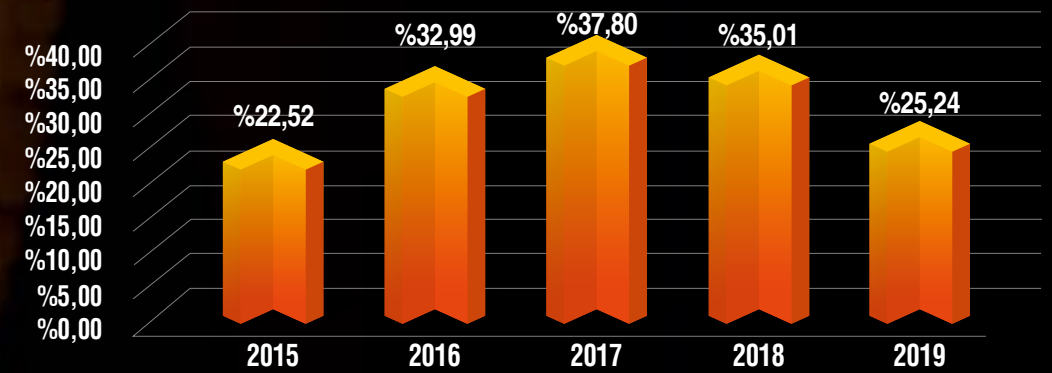
ELABORATING SUCCESS

Coppersmith

AVERAGE RETURN ON ASSETS (PER PROFIT BEFORE TAX)

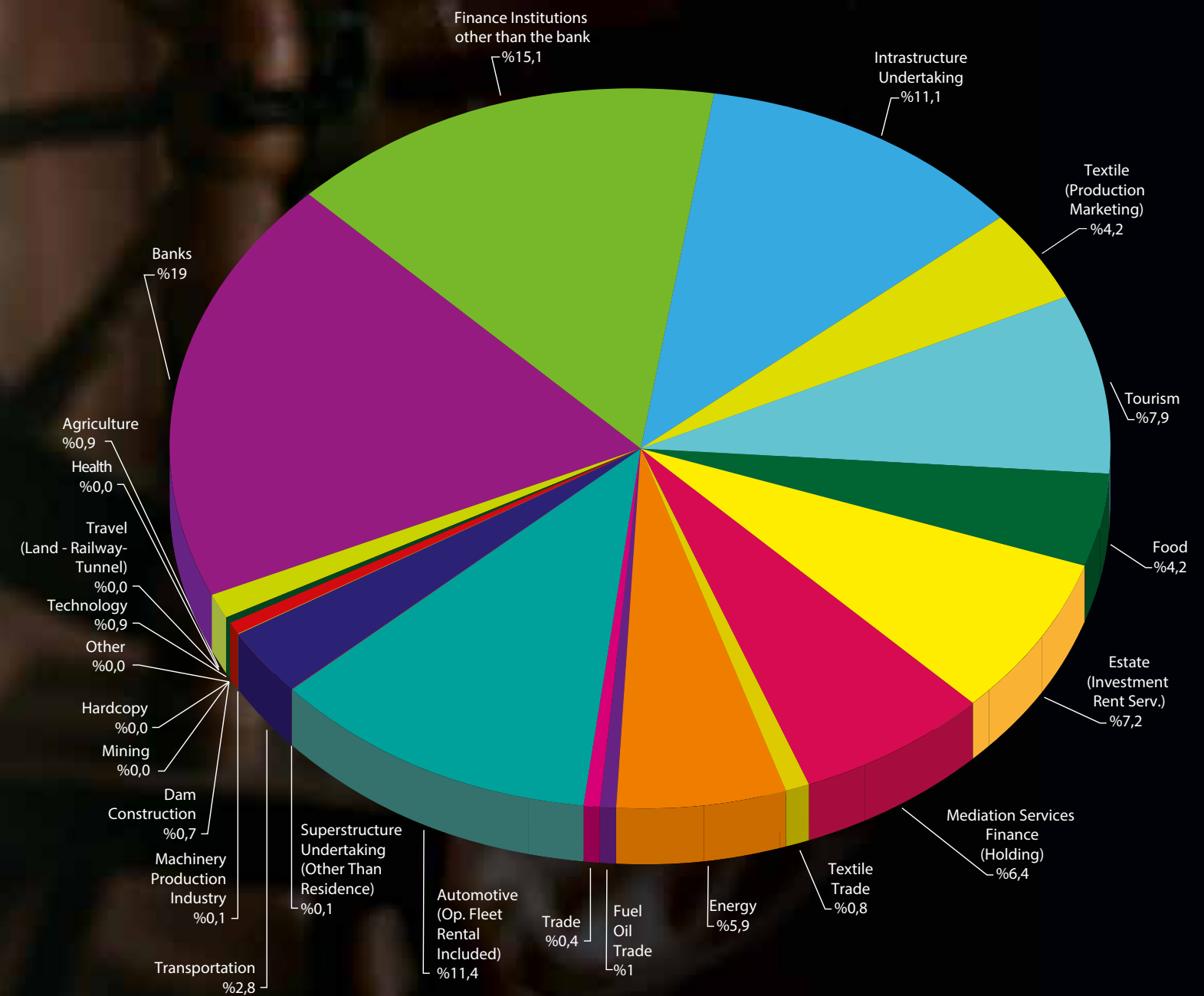


AVERAGE RETURN ON EQUITY (PER PROFIT BEFORE TAX)





SECTORAL BREAKDOWN OF TOTAL RISKS



MAKING FINE DISTINCTIONS

Yarn Weaving Master

2019 NUROLBANK ACTIVITIES AND ITS STATUS IN THE SECTOR

- As of 31 December 2019, the paid capital of our bank is 300 million TL and total equities is 436.3 million TL.
- Active size of our bank is 3.254 million TL as of 31 December 2019.
- Cash loans consist of 66% of the total actives with an amount of 2.159 million TL.
- As of the end of 2018, total cash loans portfolio with an amount 1.682 million TL showed 28 percent increase as of 31 December 2019 and increased to 2.159 million TL.
- Total cash and non-cash loan portfolio is 3.084 million TL. Portion of 852 million TL (28%) is from the foreign currency and 2.232 million TL (72%) is from Turkish Lira loans.
- As of 2019, 2.159 million (70%) of our loan portfolio is constituted by cash loan risks and 925 million TL (30%) is constituted by non-cash loan risks.
- At the end of 2018, Capital Adequacy ratio of 15,24% has become 15.64% in 2019.
- Our bank continued issuing Capital Market debt instruments in 2019. We have issued a total of 2.450 million TL debt instruments.

Subsidiaries

Nurol Varlık Kiralama A.Ş., as a subsidiary of Nurol investment bank A.Ş., is founded on 14.06.2017. The company closed the year 2019 with (zero) profit/loss. Total actives if 153.6 Million TL and the corresponding equity is about 50.000 TL.

FINANCIAL INDICATORS

PRIMARY FINANCIAL INDICATORS

(Thousand TL)	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Total Actives	3.253.950	2.679.487	1.700.343	1.174.214	719.301
Banks and Other Financial Institutions	472.460	82.382	23.230	93.541	106.604
Securities	198.356	80.530	136.519	45.514	34.584
Total Loans (Cash)	2.159.206	1.682.717	1.061.666	776.800	420.312
Total Loans (Non-Cash)	925.853	794.799	606.437	542.776	269.511
Financial Leasing Receivables (Net)	-	-	-	-	8.792
Issued Securities	763.268	736.306	638.849	525.853	382.400
Loans received	389.010	442.010	211.857	150.163	39.586
Funds Accepted By Development and Investment Banks	483.506	373.054	190.564	9.970	121.237
Subordinated Debts	90.305	80.254	57.267	53.364	-
Equities	436.342	254.711	221.893	157.941	122.738
Pre-Tax Profit/Loss	87.205	83.435	71.792	46.305	24.809
Net Profit/Loss	68.512	64.990	57.497	37.004	18.826

PERFORMANCE RATIOS

Ratios (%)	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Capital Adequacy Standard Ratio	%15,64	%15,24	%18,05	%17,34	%21,66
Average Equity Profitability (Pre-Tax Profit)	%25,24	%35,01	%37,80	%32,99	%22,52
Average Active Profitability (Pre-Tax Profit)	%2,94	%3,82	%4,99	%4,89	%3,67
Intangible Assets/Equities	%84,78	%74,90	%3,68	%15,06	%5,42
Intangible Assets/Total Actives	%11,37	%7,12	%0,48	%2,03	%0,93
Yield Actives/Total Actives	%83,90	%63,28	%71,93	%81,83	%91,10
Loans/ Total Actives	%66,36	%62,80	%62,44	%66,15	%58,43

OUR OPINIONS ABOUT THE WORLD AND TURKISH ECONOMY

OUR OPINIONS ABOUT THE WORLD AND TURKISH ECONOMY



MESSAGE FROM THE CHAIRMAN OF THE BOARD

Dear Board Members, Shareholders, Customers,

When we look back to the previous year, we see that the overall economic outlook is weak and unsuccessful; and the developing countries in particular, especially Turkey, have left behind a difficult twelve-month period.

Last year, the ongoing trade war between the USA and China was at the top of the agenda. Markets carefully followed every step, bought much of the mild agreement expectations. However, when we focus on the technological dimension of the business, especially the 5G technology developed by China, the US took the precautions by applying tariffs to the products imported from the country in question. Following all these developments closely, FED applied discount in the interest rates three times a year, providing markets with an additional five hundred billion dollars. Moreover, despite all the expectations were towards the increase of interest that was applied at the beginning of the year, this step is an indication that dollar will maintain its value on a global scale for longer periods. The uncertainty of the trade war negatively affects the entire system because the developing economies are fragile, while emerging economies suffer from supply chain disruptions. Even if there has been no finalized agreement yet, the markets agree that this commercial dispute will not last long and optimism in this regard remains.

Another important agenda was England, that is the highly active country of continental Europe. The result of the elections held in December granted Prime Minister Boris Johnson the Brexit mandate. We will be talking about a possible trade agreement between Britain and the EU while GBP, which has been freed from Brexit chains next year, continues on its way stronger. The slowdown in EU on the other side of the table continued under the leadership of Germany. After Draghi, who has been the long-term captain of ECB, we will focus on the communication of Lagarde, who turned over the work, with the markets. Together with all these developments, we can expect the continuation of a downward movement in the Euro-Dollar parity.

We left behind a very active year in the country. Among the US-Turkey-Russia axis, we often followed the fluctuating flow of the news. In addition to these geopolitical developments, the Central Bank, which has halved the interest rates in recent months, has tried to accelerate the slowing down of economic activities. Although the inflation dropped by 6 points in September with the base effect of the previous year, it reminded us the year 2016 with 8.55 percent in October, but the data from November were the signals that consumer inflation could not stay in single households, and the inflation closed the year at 11.84 percent. The USD-TRY rate, which can be considered as the barometer of all economic developments, has priced all these realizations and expectations, and closed the year, started at 5.20 levels, from around 5.95 by testing around 6.20 as a result of some speculative attacks. Especially, the FED, which we can now accept as a global central bank, started to buy assets and reduced interest rates and prevented us to see higher peaks in USD-TRY exchange rate. In the next period, we can expect a growth performance that has recovered due to the steps of economic management and its positive impact on the employment market.

At the beginning of the issues that should be cautious for 2020, there will be an understanding of growth in which investments are increased in order to make employment growth sustainable with both household and public savings measures. However, the steps to be taken in line with our geopolitical interests may have some consequences due to the geographical conditions. By placing technological acceleration next to our own economic independence, we should accept the year, that we intend to close with growth figures close to our potential, as a beginning and write new and powerful stories under the leadership of policy makers.

It is evident that this year will not be easy for both our country and the global economic system. Our domestic agenda will include the fiscal discipline and budget realizations, insurance of foreign currency borrowings in private sector balance sheets, and monetary policy stance of the Central Bank with the foresight of exchange rate volatility. At the beginning, the most important developments to be concentrated will be the presidential elections of the United States, the possible trade agreement of UK with EU, the Asia-Pacific supply chain, and the growth-related developments.

Although the year 2020 seems to be a tough year especially in terms of profitability, it should not be forgotten how our sector is the lifeline for the real sector when correct steps are taken. Nurobank, having a vision to provide world-class service to all its stakeholders, will always be ready to give its contribution to all sectors with this sense of responsibility. Our Bank will continue to create the trust environment by maintaining its stable growth. I would like to thank to all of our financial partners who have assisted us in fulfilling our duties and responsibilities in this path we set out, and to our valuable employees, who have provided their precious knowledge in full and completely during these difficult days on behalf of myself and the entire Board of Directors. As usual, I wish a new year of activity, in which we will succeed in all areas of success, of which we are candidates, and which will be beneficial for our country's economy, along with the entire banking sector.

Ziya AKKURT
Chairman of Board of Directors



MESSAGE FROM THE GENERAL MANAGER

Dear Valued Shareholders, Customers and Business Partners,

After a very fluctuant year that was full of uncertainties and plenty of opposite corners, we are proud of achieving all our goals by implementing our grounded management strategy with our young, dynamic and professional team. In the past year, we closely followed the trade disputes between the USA and China, the most expensive divorce case in history, Brexit, and its possible effects, and the geopolitical developments in our nearby geography. Besides all these developments, the economy of our country showed a serious recovery by removing the traces of the previous year in the second half of the same year. The decrease in inflation, the tight monetary policy and the reapplication of the global central banks for expansionary steps turned the view into positive. There was a significant improvement in the current account deficit, and interest rate cuts during the year also affected loan rates, triggering an increase in volume in this area.

In parallel with these developments, Nurobank knew how to keep up with its strong balance sheet growth and profitable structure while keeping up with the technological developments. In the previous year, our Bank began to work in parallel with the trends in investment banking in the world by renewing its infrastructure and banking system. We feel proud to design and implement a fully integrated banking infrastructure that can fully meet the needs of our stakeholders and employees.

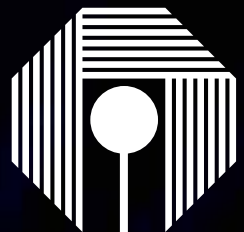
In parallel with the credit growth that has accelerated as of the second half of 2019, Nurobank has increased the loan size it has provided to the country's economy to a total of TL 3.084 million, as TL 2.159 million in cash. We created the 28 percent growth in our credit volume, in the areas with high added value. Our pre-tax profit became TL 87.2 million.

Our Bank increased its capital by 80 million TL to 300 million TL in the General Assembly held during the previous year. Via this increase in the capital, our Bank has strengthened its position and location as part of a healthier growth target in the forthcoming period. According to 31 December 2019 data, the Capital Adequacy Ratio of our Bank is 15.64% and the Equity profitability ratio is 25.24%. In addition, our Bank issued debt instruments amounting to a total of 2,450 million TL during the year at competitive prices.

Nurobank will continue to climb the steps in the sector rapidly with the targets it has set, the achievements it has achieved, and its vision that aims to create and share the better. Besides our strong liquidity and capital structure, we will continue to stand by our customers next year with our flexible structure that can produce instant solutions to rapidly changing demands. I believe that this understanding of togetherness, which has brought us to these days, will positively affect both our customer satisfaction and our financial figures. Since success in our opinion is to challenge ourselves, to overcome all difficulties no matter how big, and to know progress in all conditions with harmonious and disciplined teamwork, we will spend the next year trying to be successful with the same decisiveness.

According to our vision, we will continue to put a smile on the face of our investors via professional team work. I would like to thank all the employees of Nurobank, who provided full support with their performances, and all our stakeholders for their trust.

Özgür ALTUNTAŞ
Board Member and General Manager



GLOBAL ECONOMIC EVALUATION

Our perspective on global financial markets will start by focusing on growth expectations and interpreting current realizations. The International Monetary Fund (IMF) revised its global growth prospects and revised its forecasts for 2019 and 2020 downwards. In the report published, it was announced that the global growth expectation for 2019 was decreased from 3.2 percent to 3 percent and for 2020, from 3.5 percent to 3.4 percent., IMF noted in its report that this expected acceleration was the slowest speed after the financial crisis, IMF announced its US growth forecast as 2.4 percent by decreasing it 0.2 percent for 2019 and by increasing it 0.2 percent as 2.1 percent for 2020. The 2019 growth forecast for the Euro Area was also reduced from 1.3 percent to 1.2, and from 1.6 percent to 1.4 percent for the year 2020. GDP growth of Germany for 2020 is foreseen to be 1.2 percent and Japan's growth as 0.5 percent. On the other hand, the Organization for Economic Cooperation and Development (OECD) announced its global growth expectation for 2019 as 2.9 percent and for 2020, it decreased its expectation to 2.9 percent. OECD cited the reason for the revision as weak trade and investments.

The final annualized third quarter growth of the United States economy in 2019 was 2.1 percent according to the expectations, according to the report of US Department of Commerce that is published on December 20th. In the US economy, which grew by 2 percent in the previous quarter, strong consumption expenditures and low unemployment data give a signal for the economic recovery of the country. The unemployment rate was 3.5 percent in the last month of the year and remained at the lowest level of the last fifty years. Non-agricultural employment rate increased to 312,000 by recording its best increase of the last ten months subsequent to the same month. In December, the annual inflation of the USA was announced as 2.3 percent according to the expectations and increased by 0.3 percent compared to the previous month. The FED decreased its policy rate three times in this year as 25 base points in July, September and October, respectively, and closed the year that it started at 2.25-2.50, at 1.75-1.50. US 10-year treasury bonds, that started the year 2019 at 2.63 percent, closed the year with a decrease as a general trend and ended at 1.91 percent.

The trade war between the USA and China, which has been going on for about two years, has been relieved somewhat with the first phase trade agreement in the last days of 2019. When the details of the agreement are considered, China has promised to buy US-produced agricultural products with an amount of USD 50 billion in 2020, and gained exemption from the tariffs to be applied to the products made in China with a value of about USD 150 billion. These positive news were considered as positive in the market, leading to valuations in all asset classes, especially to the stocks. We are sure that USA will continue to intervene in the emerging Far-East economies by its own methods and will want to maintain its position that has the most share in the global economic mobility pie. The United States, which displayed its crisis management skills the year we left behind, will want to spend this year with a more positive figure, with the awareness that 2020 is the election year.

SEEING THE WORLD THROUGH THE EYE OF THE MASTER



ACTING SKILLFULLY

Wood Carving Master

GLOBAL ECONOMIC EVALUATION

The Euro Area Economy grew by 0.1 percent in the last quarter of 2019 in line with expectations. According to the report published by the European Statistical Office Eurostat, the seasonally adjusted GDP in the 19-member Eurozone increased by 0.1 percent in the last quarter of 2019 compared to the previous quarter, and this increase was 0.9 percent when compared to the fourth quarter of 2018. In the European Union, GDP increased by 0.1 percent in the last quarter compared to the previous quarter, and 1.2 percent compared to the previous year. In summary, the Eurozone grew by 1.2 percent and the EU by 1.4 percent in 2019. Seasonally adjusted employment in the European Union increased by 0.2 percent in the last quarter of 2019 when compared to the previous quarter. Employment increased by 1.1 percent in the Eurozone and 1 percent in the EU in 2019. Eurozone foreign trade balance was occurred as 22.2 billion Euros as seasonally adjusted in December.

Annual inflation was 1.2 percent in the Eurozone and 1.5 percent in European Union for 2019. The expectations for 2020 are 1.2 percent for the Eurozone and 1.4 percent for the European Union. Although the growth performance of the German economy, the locomotive of Continental Europe occurred as 0.6 percent in line with expectations, it causes to search for the figures of the previous year (GDP growth in 2018 is 1.5 percent). Expected growth figures for Germany in 2020 are about 0.7 percent. The European Central Bank continued its asset purchase program for 2019 and stated that the loose monetary policy will continue in the upcoming years. In the last meeting of the year, the policy rate was not changed. The main trend of the EUR-USD exchange rate, which started at 1.1465 in 2019, was decreased and was processed from 1.1200 while meeting the year 2020.

The UK economy grew by 1.4 percent in 2019, and the largest contribution to this growth was the consumption expenditures of households and the state investments. In 2019, the Bank of England (BoE) did not revise its policy rate, which was raised to 0.75 percent in 2018, rather it made movements to prevent the bill of England from getting out of the European Union to increase. The annual inflation rate for 2019 was explained as 1.8 percent and the forecast for the year 2020 as 1.7 percent. In parallel to the GBP-USD Brexit developments that started the year from 1.2750 level, the state changes were priced and closed the year at 1.3250 by seeing the 1.3300 and 1.2000 levels. British economy, spent the past years discussing the details and costs of the Brexit deal, will be talking about the possible consequences of this split next year.

The economic growth of the People's Republic of China has been realized as 6.1 percent with the weakening demand spread to the global scale through the trade war. 2020 expectations are at about 5.8 percent. Annual inflation in 2019 was announced as 2.9 percent, and 2020 expectations are 3.1 percent. 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.

The price of barrels of Brent crude oil reached \$ 69.90 in April after starting 2019 with 55.70 USD. News flow of Middle-east geopolitical and oil production, especially with low growth expectations due to trade wars, led to the fluctuating course of Brent oil and eventually closed the year at a level of 65 USD. Continuation of USA's embargo to Iran and OPEC's price increasing policies have balanced the oil prices. Brent oil expectation for the end of 2020 is about 60 USD.



PRESERVING OUR HERITAGE

TURKISH ECONOMY

Gross Domestic Product of Turkey showed a volume increase in parallel to the expectations of 1 percent, by growing 0.9 percent in real in the third quarter of 2019. With this performance, there was no decrease in four quarters and a significant acceleration was obtained in order to get out of the recession. When the GDP components by the production methods are considered, the total value added of the agricultural sector increased by 3.8 percent and the industrial sector increased by 1.6 percent. In the industry, the manufacturing industry value added increased 1.4 percent, the services sector by 0.6 percent, while the construction sector reduced by 7.8 percent. When observed by the expenditures method, household expenditures increased by 1.5 percent in real in the third quarter of 2019, while the final consumption expenditures of the state increased by 7 percent. The decline in the investments was realized as 12.6 percent, and continued to decrease in the fifth consecutive quarter.

Despite taking the measures, including the transfer of the reserve fund of the Central Bank to the budget for financing the budget deficit, the budget of the year 2019 could not be prevented to have any deficit. The budget deficit target of 80.6 billion lira determined for 2019 was 123.7 billion lira with a high deviation. The budget deficit, which was 72.8 billion lira in period between January and December 2018, increased by 50.9 billion lira in 2019. In January-December 2019, budget revenues increased by 15.5 percent compared to the same period of the previous year and reached 875.8 billion lira, while the budget expenditures increased by 20.3 percent and reached 999.5 billion lira. In the same period, tax revenues increased by 8.3 percent compared to the previous year and were realized as 673.3 billion lira, and the primary budget expenditures increased by 18.9 percent and reached 899.5 billion lira.

Organization for Economic Cooperation and Development (OECD) revised the growth expectation for Turkish economy from 0.3 percent to minus 0.3 percent for the year 2019 and from 3 percent to 1.6 percent for the next year. The International Monetary Fund (IMF) increased its growth expectation for the year 2019 from minus 2.5 to 0.2 percent. Both institutions estimate that the growth in the revision of Turkey's economy recovered in recent months, the incentives provided by the government also emphasize that the incentives provided by the state will positively affect the internal demand and the depreciation in TL have supported importation. Also, the institutions have underlined that a political plan is needed to repair the private sector balance sheets and to rebuild credibility.

The number of unemployed people, who are 15 and older, became 4 million 396 thousand persons in Turkey increasing by 608 thousand persons when compared to the same period last year October period in 2019. Unemployment rate increased by 1.8 points to 13.4 percent when compared to the same period of the previous year. The unemployment rate in the young population was realized as 25.3 percent with an increase of 3 points in the same period. In the country, the number of employed people decreased by 527 thousand to 28 million 343 thousand in October 2019 when compared to the same month of the previous year, while the employment rate decreased by 1.6 points to 45.9 percent.

The balance of payments, which gave a deficit of 25 billion 632 million dollars in the period between January and November 2018, gave a surplus of 4 billion 249 million dollars in the same period of 2019. Exports increased by 2.04 percent in 2019 compared to the previous year, and increased from \$ 176.8 billion to \$ 180.4 billion. In the same period, importation decreased by 8.99 percent to \$ 210.4 billion, while foreign trade volume decreased from \$ 408 billion to \$ 390.8 billion by 4.21 percent. In parallel to the decline in importation, the foreign trade deficit decreased from \$ 54.3 billion to \$ 29.9 billion with a decrease of 44.9 percent.



TURKISH ECONOMY

Despite the high food prices, especially towards the end of the year, CPI has turned its direction down from the high record levels of the last year and closed it with 11.84 percent below the target level of 12 percent of the year-end. The CPI index increased by 15.18 percent compared to the average of twelve months. In the audits in the main expenditure groups, the highest annual price increase was observed in alcoholic beverages and tobacco with 43.1 percent, followed by education expenditures with 14.4 percent, health and various goods and services with 13.6 percent. D-PPI increased by 0.69 percent in December 2019 by 7.36 percent annually, and by 17.5 percent when compared to the average of twelve months. Prices in the main sectors increased by 13.3 percent in mining, 6.9 percent in manufacturing, and 12.4 percent in electricity and gas production and distribution.

Central Bank of the Republic of Turkey did not change its policy until the one-week repurchase agreements' interest rate by July, which were stable at 24 percent in the first Monetary Policy Committee meeting conducted on January 16, 2019. The policy interest, which decreased by 425 base points to 19.75 percent on July 25, was reduced in all meetings held after this date. The policy interest decreased to 16.5 percent in September, to 14 percent in October, and to 12 percent in December, and these steps in the policy interests were also reflected in loan and deposit rates.

International credit rating institution, Moody's decreased the rating of Turkey from "Ba3" to B1" on June 14 and left the rating view as stable as "negative", it was specified that the increase in foreign shock risk due to high current account deficit and external debt due to political risks was a factor in the change of ratings, and it was emphasized that effective policies to increase investor confidence could not be put into practice. Another credit rating agency Standard & Poor's did not change the "B+" credit rating of Turkey from "stable" view.

In 2019, USD - TRY provided to be completed with an average increase of 17 percent with both an unexpected recovery in the global financial conditions (3x25bp interest decrease by FED and initialization of the asset program by ECB) and the buffer occurred in favor of Turkish lira on the real interest side and also the measures taken on the public side Starting the year at 5,2087 level, USD-TRY closed the year at 5.9511 and tested 6,1930 (9 May 2019) as the highest point in 2019. London swap restriction developments, local elections and repeated Istanbul elections in the first half of the year and the following months have been the main reason for the volatility in exchange rates. EUR-TRY started the year at 5,9230 and closed at 6,6740. GBP-TRY started the year at 6,6980, and closed the year at 7,8900 with a fluctuating course due to the Brexit developments.

While the BIST-100 index gained a value of 25 percent in the year, when the CBRT interest discount rate of 1200 base score in total, the banking index became the sector with the highest output with 36 percent. While the weighted average funding rate decreased by 1263 base points, the 2-year indicator decreased by 815 base points and the 10-year indicator decreased by 427 base points.

DOMINATING THE BUSINESS

Master Shoemaker

MANAGEMENT AND COMMITTEES

MANAGEMENT AND COMMITTEES

Leaded Glass Master



Board Members

1 Ziya AKKURT
Chairman of Board of Directors

2 Mehmet Oğuz ÇARMIKLI
Deputy Chairman of the Board of Directors

3 Mehmet Mete BAŞOL
Member of the Board of Directors

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

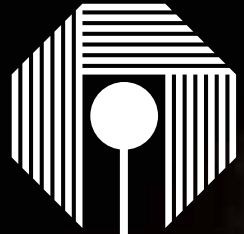
5 Gürhan ÇARMIKLI
Member of the Board of Directors

6 Ahmet Kerim KEMAHLI
Member of the Board of Directors

7 Yusuf SERBEST
Member of the Board of Directors

8 Ahmet ŞİRİN
Member of the Board of Directors

9 Özgür ALTUNTAŞ
Board Member and General Manager



MASTERING KNOWLEDGE AND EXPERIENCE

Jewelry Master

BOARD OF DIRECTORS



Ziya AKKURT
Chairman of the Board of Directors

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 Osmanlı Bankası / Banque Paribas / Paris International Banking Department. Mr. Akkurt, who started to work at Akbank Corporate Banking department in 1996, served in various departments in Akbank and worked as the CEO between 2009 and 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 Yatırım A.Ş. Ziya Akkurt continues working at Nuro Investment Bank A.Ş. as the Chairman of Board of Directors since February 2016.



Mehmet Oğuz ÇARMIKLI
Deputy Chairman of the Board of Directors

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



Dr. Eyüp Sabri ÇARMIKLI
Member of the Board of Directors

He graduated from the University of Essex, London, Department of Political Sciences in 1997. He continued his academic career in the University of Westminster, 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 Westminster University, London. He started his professional career as a director in Riyadh agency of Nuro İnşaat Ticaret A.Ş. between 1991-1992. He worked as the Head of Land Development Department at Nuro İnşaat Ticaret A.Ş. between 1992 and 1993. He served as the General Manager of Nuro Pazarlama ve Dış Ticaret A.Ş. between 1993 and 1994. Since 1994, he is working as the Member of the Board of Directors at Nuro Holding A.Ş. At the same time, he was appointed as a Board Member of Nurobank on September 2016.

BOARD OF DIRECTORS



Ahmet Kerim KEMAHLI
Member of Board of Directors

He graduated from 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, Abaliođlu Holding and elebi Holding, chronologically. He has been the Finance Coordinator of NuroI Holding since 2010 and the Board Member of NuroI Investment Bank since 2011 and a Member of the Audit Committee since 2014.



Mehmet Mete BAŞOL
Member of Board of Directors

He graduated from the University of Arizona, Department of Economics with a B.S degree. Mr. Başol, 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 working as the Member of the Board of Directors of NuroI Investment Bank A.Ş. and Corporate Management Board since August 2014.



Gürhan ARMIKLI
Member of Board of Directors

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 NuroIbank since May 2016. He started his career in NuroI Holding Finance Department in 2003. He worked in the Accounting and Finance departments of FNSS A.Ş. between 2007 and 2008. He worked at NuroI Holding A.Ş. Finance Department between 2008 and 2011. He has been working as the member of Board of Directors at NuroI İnşaat A.Ş. since December 2001.

BOARD OF DIRECTORS



Ahmet ŞİRİN
Member of Board of Directors

He graduated from Ankara University, Faculty of Political Sciences. He received his Master's Degree from Leeds University. Mr. Şirin, 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 NuroI Investment Bank Inc. Since July 2013.



Yusuf SERBEST
Member of Board of Directors

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 NuroI Menkul Kıymetler A.Ş., served as the Deputy Chairman of the Board of ISE and Member of the Executive Board of Aydın Orme San. ve Tic.A.Ş. He has been a member of the Board of NuroI Yatırım Bankası since 2001.



Özgür ALTUNTAŞ
Member of Board of Directors and General Manager

He graduated from Istanbul Technical University, Department of Management Engineering. Mr. Altuntaş, 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 Bankası, 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 serving as the Board Member - General Manager of NuroI Investment Bank A.Ş. since 16 September 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 Manager of Operations and Information Management
- 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



ACHIEVING SUCCESS THAT LEAVES FOOTPRINTS

Lithograph Artist

SENIOR MANAGEMENT



Özgür ALTUNTAŞ
Member of Board of Directors and General Manager

He graduated from Istanbul Technical University, Department of Management Engineering. Mr. Altuntaş, 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 Bankası, 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 serving as the Board Member - General Manager of Nurol investment bank A.Ş. since 16 September 2013



Zafer Babür HAKARAR
Deputy General Manager of Treasury

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. Babür Hakarar has been serving as the Chief Deputy General Manager responsible for Treasury in Nurol Investment Bank Inc. since September 2013.



Dr. Murat ÇİMEN
Deputy General Manager of Loans

He graduated from ITU, Department of Civil Engineering. He received his master's and doctorate degrees from Boğazici University. Mr. Çimen, 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 Manager of Operations and Information Management

He graduated from 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 Bankası 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

Deputy General Manager of Audit and Compliance Management 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. Semih Subutay Nezir has been working at Nurool 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 Relations

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 Nurool 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

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 Nuroolbank Financial Institutions Department since 2018.



PAYING ATTENTION TO EVERY STEP

Master Saddlemaker

COMMITTEES OF BOARD OF DIRECTORS

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 2019 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 Surname	Primary Position
Chairman	Ahmet ŞİRİN	Member of Board of Directors
Member	Mehmet Mete BAŞOL	Member of Board of Directors

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 2019 to make remuneration suggestions to the Board of Directors.

Position	Name Surname	Primary Position
Chairman	Mehmet Oğuz ÇARMIKLI	Deputy Chairman of the Board Member
Member	Ahmet Kerim KEMAHLI	Member of Board of Directors

Audit Committee

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 10 times in 2019 to make suggestions to the Board of Directors.

Position	Name Surname	Primary Position
Chairman	Ahmet ŞİRİN	Member of Board of Directors
Member	Ahmet Kerim KEMAHLI	Member of Board of Directors

COMMITTEES OF BOARD OF DIRECTORS

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

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 3 times in 2019.

Position	Name Surname	Primary Position
Chairman	Özgür ALTUNTAŞ	Member of Board of Directors - General Manager
Member	Zafer Babür HAKARAR	Chief Deputy General Manager of Treasury Department
Member	Ahmet Murat KAVURGA	Deputy Manager of Operations and Information Management

COMMITTEES OF BOARD OF DIRECTORS

Active Passive 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 42 times in 2019.

Position	Name Surname	Primary Position
Chairman	Özgür ALTUNTAŞ	Member of Board of Directors - 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 32 times in 2019.

Position	Name Surname	Primary Position
Chairman	Ziya AKKURT	Chairman of Board of Directors
Member	Mehmet Mete BAŞOL	Member of Board of Directors
Member	Özgür ALTUNTAŞ	Member of Board of Directors - General Manager

CODE OF ETHICS



CODE OF ETHICS



CARRYING THE VALUES INTO THE FUTURE

im possible



HUMAN RESOURCES PRACTICES

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 2019.

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 2019; the number our personnel is 66, and 93% of them are graduated from university, the mean age is 37 and the average seniority year of our bank is 5.63 and the average sector experience of our employees is 11.82 years. 42.18% of our employees are female employees.



CORPORATE MANAGEMENT CODE OF ETHICAL PRACTICES

Corporate Governance Ethical Rules Compliance Statement, transparency and commitment to the ethical values have always been a priority for our Bank

Social Responsibility

Our Regulation on Corporate Governance Codes of Ethical 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.

INGRAINED WORK ETHIC

Calligraphy Master

CORPORATE MANAGEMENT CODE OF ETHICAL PRACTICES

Stakeholders

Our Corporate Governance Committee coordinates the processes of contact with shareholders as determined in our Corporate Governance Codes of Ethical, which was prepared in accordance with the provisions of the Regulation on Banks' Corporate Governance Codes of Ethical 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.

CORPORATE MANAGEMENT CODE OF ETHICAL PRACTICES

Public Disclosure and Transparency

As determined in our Corporate Governance Codes of Ethical, which was prepared in accordance with the provisions of the Regulation on Banks' Corporate Governance Codes of Ethical 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.
- **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 Nuro! 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 Nuro! 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
- Credence Risk Yonetimi ve Danismanlik A.S. within the scope of call center and archiving services.
- Ankara şube özel güvenlik personel hizmeti Securitas Güvenlik Hizmetleri A.Ş., for private security personnel services for Ankara branch
- Fineksus Bilişim Çözümleri Ticaret A.Ş. providing services within the scope of SWIFT connection transactions.

FINANCIAL INFORMATION AND EVALUATION REGARDING RISK MANAGEMENT

Report of the Audit Committee

Dear Shareholders,

The activities carried out by the internal systems (Internal Audit 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 10 times in 2019 to make suggestions to the Board of Directors. The first six month Audit Committee Activity Report of 2019 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.

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.

Continuous effective, accurate, orderly and safe ethical 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.

FINANCIAL INFORMATION AND EVALUATION REGARDING RISK MANAGEMENT

Internal Control Department

Within the scope of 2019 internal control business plan, 3 Banking Process and 2 Support Service and Information Systems (COBIT) 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: in the classroom or via distance education.

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.

FINANCIAL INFORMATION AND EVALUATION REGARDING RISK MANAGEMENT

Internal Audit Department

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.

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 framework of the Risk Management Program, an annual evaluation is made for the organizations that receive support services by the Risk Management Department.

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 framework of the Risk Management Program, an annual evaluation is made for the organizations that receive support services by the Risk Management Department.

FINANCIAL INFORMATION AND EVALUATION REGARDING RISK MANAGEMENT



Baki ARSLAN
Manager of Internal Control Department

He is graduated from Anatolian University, Faculty of Economics and Administrative Sciences, Department of Economics. Having started his career at Turkishbank Financial and Administrative Affairs Department in 1995, Arslan worked at EGS Bank and Bayındırbank respectively. Mr. Arslan started to work at Nurol Investment Bank since April 2002, then he has been working as the Manager of the Internal Control Department as of August 2009.



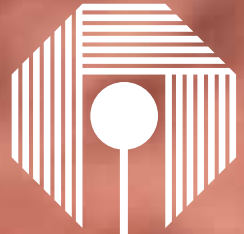
Ozan ALPARSLAN
Internal Audit Chief Inspector

He is graduated from Anatolian University, Faculty of Economics and Administrative Sciences, Department of Economics. Having started his career at Turkishbank Financial and Administrative Affairs Department in 1995, Arslan worked at EGS Bank and Bayındırbank respectively. Mr. Arslan started to work at Nurol Investment Bank since April 2002, then he has been working as the Manager of the Internal Control Department as of August 2009.



Tuğba USKUAY
Manager of Risk Management Department

He graduated from Uludağ University, Department of Econometry. Starting his career in 2007 as an Assistant Specialist at Turkishbank, Uskuay has been working at Nurol Investment Bank since 2008. Uskuay, who was appointed as the Director of the Risk Management Department in May 2014, has been serving as the Risk Management Manager since January 2016



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 exceed 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.

CONSIDERING DELICATE BALANCES

Master Watchmaker

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 analyzes 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 analyzes 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 analyzes, stress tests and scenario analyzes 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.



CREATING MASTERPIECES

Master Wood Craftsman

ORDINARY GENERAL ASSEMBLY

2019 Ordinary General Assembly Meeting Agenda

- 1- Opening and Specifying the Chairman
- 2- Reading and discussing the Activity report of 2019 Board of Directors,
- 3- Reading the report of Independent Audit Institution,
- 4- Reading, discussing and verifying the 2019 financial tables,
- 5- Introducing the members of the board of directors due to their 2019 works,
- 6- Election of the Members of Board of Directors and determining their periods,
- 7- Discussing and resolving the wages and peace rights of the members of the Board of Directors,
- 8- Discussing and finalizing not to distribute the 2019 profit and add 60.000.000,00TL (Sixty million Turkish liras) to the Company Capital,
- 9- As a result of adding 60.000.000,00TL (Sixty Million Turkish Liras) of 2019 profit to the Company capital, increasing the company capital from 300.000.000,00 TL (Three hundred Million Turkish Liras) to 360.000.000,00TL (Three hundred sixty Million Turkish Liras),
- 10- Amending the Article 7 "Capital" of the Main Agreement of the company,
- 11- Discussing and finalizing the decision to give premiums to the bank personnel,
- 12- Introducing the Independent Auditor (Audit Institution) for 2019 activity period,
- 13- Election of the Independent Audit (Audit Institution) for 2020 activity period.
- 14- Providing the permits to the members of Board of Directors as specified in Articles 395 and 396 of TTC
- 15- Wishes, advices and closing

"The Ordinary General Assembly meeting of 2019, which is planned to be held on 25 March 2020, could not be held due to the Covid 19 pandemic, since the quorum for the meeting could not be achieved. The date of the new General Assembly will be determined by our Board of Directors within the framework of the regulations that will come into force by following the developments."



**NUROL YATIRIM BANKASI
ANONİM ŐİRKETİ AND ITS
SUBSIDIARY
CONSOLIDATED FINANCIAL
STATEMENT FOR THE YEAR
ENDED 31 DECEMBER 2019**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders 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 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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.

Key Audit Matter	How the matter is addressed in our audit
<p>Recognition of impairment on financial assets in accordance with IFRS 9 "Financial Instruments" Standard and related significant disclosures</p> <p>As disclosed in disclosure 4.10, The Group recognizes expected credit losses of financial assets in accordance with IFRS 9. We considered the impairment of financial assets recognition in accordance with IFRS 9 as a key audit matter since:</p> <ul style="list-style-type: none"> - Amount of on and off balance sheet items that are subject to expected credit loss calculation is material to the financial statements - There are complex and comprehensive requirements of IFRS 9 - The classification of the financial assets is based on the Bank'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. - Re-structured processes of IFRS 9 are advanced and complex. - Judgements and estimates used in expected credit loss calculation are new, complex and comprehensive. - Disclosure requirements of IFRS 9 are comprehensive and complex 	<p>Mevcut denetim prosedürlerimizin yansira denetim prosedürlerimiz:</p> <ul style="list-style-type: none"> - Our audit procedures included among others include: - Evaluating the appropriateness of management's selection of accounting policies based on the requirements of IFRS 9, our business understanding and industry practice. - 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



Istanbul, Turkey
February 24, 2020



TABLE OF CONTENTS

	Page
Consolidated Statement of Financial Position	98
Consolidated Statement of Profit or Loss and Other Comprehensive Income	99
Consolidated Statement of Changes in Equity	100
Consolidated Statement of Cash Flows	101
Notes to the Consolidated Financial Statements	103 -175

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

	Note	Audited 31 December 2019	Audited 31 December 2018
Assets			
Cash and cash equivalents	6	473,645	308,898
Reserve deposits at Central Bank	7	149,683	321,030
Derivative financial assets		11,937	24,929
Financial assets measured at fair value through other comprehensive income	8	198,356	80,431
Loans and advances to customers	9	2,159,206	1,682,717
Property and equipment	12	7,131	4,040
Investment property	10	223,545	34,385
Intangible assets	13	4,811	2,190
Deferred tax assets	19	8,741	2,032
Current tax assets		-	7,157
Other assets	11	16,895	211,678
Total assets		3,253,950	2,679,487
Liabilities			
Funds borrowed	14	904,639	909,077
Debt securities issued	15	763,268	736,306
Other liabilities	17	987,772	652,855
Derivative financial liabilities		43,444	37,257
Subordinated debts	16	90,305	80,254
Provisions	18	22,352	9,027
Current tax liability		5,828	-
Total liabilities		2,817,608	2,424,776
Equity			
Share capital	21	300,000	160,000
Reserves		54,997	19,283
Retained earnings		81,345	75,428
Total equity		436,342	254,711
Total liabilities and equity		3,253,950	2,679,487

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 2019

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2019	Audited 1 January 31 December 2018
Interest income	22	459,409	379,123
Interest expense	22	(250,381)	(204,427)
Net interest income		209,028	174,696
Fee and commission income	23	57,527	21,952
Fee and commission expense	23	(8,726)	(10,745)
Net fee and commission income		48,801	11,207
Net trading income / (loss)	24	(73,937)	(51,622)
<i>Net gains/(losses) on financial assets/liabilities at fair value through profit or loss</i>		<i>(64,787)</i>	<i>(30,845)</i>
<i>Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income</i>		<i>(9,150)</i>	<i>(20,777)</i>
Other operating income	25	12,918	22,609
		(61,019)	(29,013)
Operating income		196,810	156,890
Net impairment/recoveries on financial assets	9	(24,029)	(21,186)
Other provision expenses	26	(17,415)	(4,193)
Personnel expenses	27	(25,150)	(16,684)
Depreciation and amortization		(4,955)	(1,980)
Administrative expenses	28	(38,056)	(29,412)
Profit before income tax		87,205	83,435
Income tax expense	17	(18,693)	(18,445)
Profit for the period		68,512	64,990
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		33,398	(19,405)
Income tax relating to components of other comprehensive income	19	(279)	19,326
Other comprehensive income (loss) for the period, net of income tax		33,119	(19,079)
Total comprehensive income for the period		101,631	45,911

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 2019

(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 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
Audited						
Balances at 1 January 2019		160,000	11,909	7,374	75,428	254,711
Transfer to reserves		-	-	2,595	(2,595)	-
Capital Increase		140,000	-	-	(60,000)	80,000
Internal Resources		60,000	-	-	(60,000)	-
Cash Resources		80,000	-	-	-	80,000
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	68,512	68,512
- Other comprehensive income for the period, net of tax		-	33,119	-	-	33,119
Total comprehensive income for the period		-	33,119	-	68,512	101,631
Balance at 31 December 2019		300,000	45,028	9,969	81,345	436,342

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

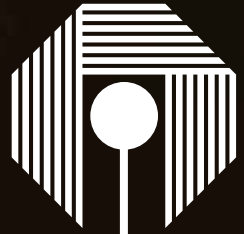
NUROL YATIRIM BANKASI ANONİM ŞİRKETİ CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

Note	Audited 1 January 31 December 2019(*)	Audited 1 January 31 December 2018(*)
Cash flows from operating activities		
Net profit for the period	68,512	64,990
Adjustments:		
Depreciation and amortisation	4,955	1,980
Current tax expense	25,681	17,269
Deferred tax (income)/expense	(6,988)	1,176
Provision for loan losses	24,029	21,186
Other provisions	17,415	4,193
Other accruals	(15,021)	(9,903)
Lost from asset sale	-	-
Foreign exchange loss / (gain)	(22,722)	(50,626)
Fair value gain on investment property	(4,169)	(16,863)
Fair value gain on other assets	-	-
	91,692	33,402
Changes in operating assets and liabilities		
Change in derivative financial assets	12,992	(23,264)
Change in loans and advances to customers	(475,230)	(630,675)
Change in reserve deposits	169,885	(7,838)
Change in other assets	5,632	(103,530)
Change in other liabilities	420,119	369,078
Change in derivative financial liabilities	6,187	18,426
Change in borrowings	(3,905)	461,308
Taxes paid	(18,728)	(26,328)
Net cash provided by / (used in) operating activities	116,952	57,176
Cash flows from investing activities		
Purchase of financial assets measured at fair value through other comprehensive income	(6,173,688)	(3,897,624)
Sale of financial assets measured at fair value through other comprehensive income	6,090,010	3,932,938
Purchase of property and equipment	(1,525)	(9,313)
Proceeds from sale of investment property	-	-
Purchase of intangible assets	(4,347)	(1,546)
Net cash (used in) / provided by investing activities	(89,550)	24,455
Proceeds from debt securities issued	5,046,664	3,955,632
Repayment from debt securities issued	(5,023,733)	(3,839,075)
Proceeds from subordinated debts	-	-
Net cash provided by / (used in) financing activities	22,931	116,557
Effect of foreign exchange rate change on cash and cash equivalents	22,722	50,626
Net increase in cash and cash equivalents	164,747	282,216
Cash and cash equivalents at 1 January	6	26,682
Cash and cash equivalents at 31 December	6	308,898

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 434,579 (31 December 2018: 366,699) and interest paid is amounting to TL 239,682 (31 December 2018: 202,142).

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



Ebru (Turkish Marbling) Master

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(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, 2019.

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.	236,947	78.98
Nurol İnşaat ve Tic. A.Ş.	50,112	16.70

The Parent Bank’s paid in capital has been increased by TL 140,000 provided from internal sources in the current period (January 1- December 31, 2018: The Parent Bank’s paid in capital has been increased by TL 35,000 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2019 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 2019. 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 2019 are as follows:

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.

Lessees have recognition exemptions to applying this standard in case of short-term leases (i.e., leases with a lease term of 12 months or less) and leases of 'low-value' assets (e.g., personal computers, office equipment, etc.). At the commencement date of a lease, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date (i.e., the lease liability), at the same date recognises an asset representing the right to use the underlying asset (i.e., the right-of-use asset) and depreciates it during the lease term. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. Lessees are required to recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

Lessees are required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Under these circumstances, the lessee recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The standard is applied for annual periods beginning on or after 1 January 2019. The Group disclosed the impact of the standard on financial position or performance of the Group. As of 31 December 2019, The Group recognized right of use asset classified under tangible assets and lease liability amounting to TL 4,797 and TL 3, 167 respectively due to application of IFRS 16.

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

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

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with IAS 28 Investments in Associates and Joint Ventures. In this amendment, 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.

These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments did not have a significant impact on the financial position or performance of the Group.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how an entity considers changes in facts and circumstances.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The interpretation did not have a significant impact on the financial position or performance of the Group.

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015–2017 Cycle, amending the following standards:

- 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. The amendments did not have a significant impact on the financial position or performance of the 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" 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. These amendments are applied for annual periods beginning on or after 1 January 2019. The amendments are not applicable for the Group and did not have an impact on the financial position or performance of the Group.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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.

These amendments are applied for annual periods beginning on or after 1 January 2019. 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. The Group will wait until the final amendment to assess the impacts of the changes.

IFRS 17 - The new Standard for insurance contracts

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

Definition of a Business (Amendments to IFRS 3)

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments:

- clarify the minimum requirements for a business;
- remove the assessment of whether market participants are capable of replacing any missing elements;
- add guidance to help entities assess whether an acquired process is substantive;
- narrow the definitions of a business and of outputs; and
- introduce an optional fair value concentration test.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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

The amendments to IFRS 3 are effective for annual reporting periods beginning on or after 1 January 2020 and apply prospectively. Earlier application is permitted.

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

Definition of Material (Amendments to IAS 1 and IAS 8)

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments to IAS 1 and IAS 8 are required to be applied for annual periods beginning on or after 1 January 2020. The amendments must be applied prospectively and earlier application is permitted.

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

Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform

The amendments issued to IFRS 9 and IAS 39 which are effective for periods beginning on or after 1 January 2020 provide certain reliefs for 4 fundamental matters in connection with interest rate benchmark reform. These reliefs are related to hedge accounting as follows:

- Highly probable requirement
- Prospective Assessments
- Retrospective Assessments
- Separately identifiable risk components

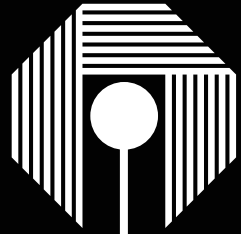
Reliefs used as a result of amendments in IFRS 9 and IAS 39 is aimed to be disclosed in financial statements based on the amendments made in IFRS 7.

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.



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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 24 February 2020.

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

4.3 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 2019	5.9400	6.6621
31 December 2018	5.2810	6.0422

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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.

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.8 Taxation and deferred income taxes (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

4.9 Financial 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.9 Financial instruments (continued)

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.

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.9 Financial instruments (continued)

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

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 aims 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.



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.9.1 Financial assets (continued)

Financial Assets at Fair Value Through Other Comprehensive Income (continued)

“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.

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.9.1 Financial assets (continued)

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.

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

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.

4.10 Expected Credit Loss

As of 31 December 2019, 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.

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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).

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 5.42% and 25.27%, respectively for cash financial assets, 2.28% and 39.33% for noncash loans as of 31 December 2019. 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.

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'

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.10 Expected Credit Loss (continued)

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



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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 extinguished 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.

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

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

Restructuring and refinancing of financial instruments (continued)

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 as 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.

4.12 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

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.

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.15 Leases (continued)

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.

4.16 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.

4.17 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

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.

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.



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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 2019	Corporate Banking	Other(*)	Total operations of the Group
Operating income	195,618	1,192	196,810
Other expenses	(109,605)	-	(109,605)
Profit before income tax	86,013	1,192	87,205
Income tax income/expense			(18,693)
Profit for the period	67,320	1,192	68,512
Segment assets	3,249,928	4,022	3,253,950
Non-distributed Asset	-	-	-
Total assets	3,249,928	4,022	3,253,950
Segment liabilities	2,817,608	-	2,817,608
Shareholders' equity	-	436,342	436,342
Total liabilities	2,817,608	436,342	3,253,950

(*) includes investment, retail and other banking 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

6. Cash and cash equivalents

	31 December 2019	31 December 2018
Cash and balances with central banks	1,286	226,522
- Cash on hand	1,283	734
- Balances with central banks	3	225,788
Due from banks and financial institutions(*)	472,359	82,376
Cash and cash equivalents in the balance sheet	473,645	308,898

(*) As a result of IFRS 9 adoption, amount of TL 101 provision booked for due from banks and financial institutions as of December 31, 2019 (31 December 31, 2018: 6).

Expected credit loss for banks and reserve deposits at central bank

	Stage 1	Stage 2	Stage 3	Total
Balances at Beginning of Period (1 January 2018)	6	-	-	6
Additions During the Period (+)	407	-	-	407
Disposal (-)	(312)	-	-	(312)
Balances at End of Period	101	-	-	101

7. Reserve deposits at Central Bank

	31 December 2019	31 December 2018
Turkish Lira	20,186	233,697
Foreign currency	129,497	87,333
	149,683	321,030

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

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

	31 December 2019		31 December 2018	
	Amount	Effective interest rate	Amount	Effective interest rate
Financial assets measured at fair value through other comprehensive income				
Debt instruments (a)	67,205	13.91%	60,670	16.44%
Equity instruments – listed (b)	122,671		13,446	
Equity instruments – unlisted	9,176		6,414	
Financial assets measured at fair value through other comprehensive income	199,052		80,530	
Expected Credit Losses (-)(c)	(696)		(99)	
Total FVTOCI	198,356		80,431	

a) Financial assets measured at fair value through other comprehensive income include government bonds denominated in TL amounting to TL 477 (31 December 2018: TL 1,155), bank bonds amounting to TL 6,134 (31 December 2018: TL 6,065), private sector securities amounting to 3,866 TL (31 December 2018: TL 18,030), Private sector bonds amounting to TL 56,032 (31 December 2018: TL 53,357).

(b) The Group holds 16.69% of Nuro Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 31 December 2019 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 40,304 is accounted under equity (31 December 2018: TL 11,230).

(c) The Group calculates expected credit loss for financial assets measured at fair value through other comprehensive income with the adoption of IFRS 9. As of 31 December 2019, the expected credit loss that is calculated for financial assets measured at fair value through other comprehensive income is TL 114 (December 31, 2018: 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)	99	-	-	99
Additions During the Period (+)	104	-	-	104
Disposal (-)	(89)	-	-	(89)
Balances at End of Period	114	-	-	114

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers

	31 December 2019		
	Amount		
	TL	Foreign currency	Total
Short-term loans	1,105,257	328,073	1,433,330
Medium and long-term loans	187,411	413,004	600,415
Total performing loans	1,292,668	741,077	2,033,745
Generic provisions for Stage 1 and Stage 2	(8,730)	-	(8,730)
Non-performing loans (*)	161,610	-	161,610
Provisions for Stage 3 (*)	(27,419)	-	(27,419)
Total non-performing loans (net)	134,191	-	134,191
Total loans, net	1,418,129	741,077	2,159,206

	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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

Lending structure of the Group:

	31 December 2019	31 December 2018
Corporate Lending	1,721,502	1,400,188
SME Lending	55,113	31,881
Other Lending	418,740	262,155
Less: Allowance for ECL/impairment losses	(36,149)	(11,507)
Total	2,159,206	1,682,717

Expected Credit Loss Expense Movement of the Group:

	31 December 2019				31 December 2018			
	ECL allowance				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)	96	-	-	96	5	-	-	5
Securities	15	-	-	15	(16)	-	-	(16)
Derivatives	-	-	-	-	-	-	-	-
Loans and advances to customers	(1,326)	923	25,055	24,652	1,517	3,046	18,107	22,670
Other financial assets	28	-	-	28	(43)	-	-	(43)
Guarantees	232	(303)	(676)	(747)	(13)	820	(2,172)	(1,365)
LCs and Acceptances	(15)	-	-	(15)	(65)	-	-	(65)
	(970)	620	24,379	24,029	1,385	3,866	15,935	21,186



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(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 2019							
	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)	623,328	-	-	623,328	101	-	-	101
Securities	198,356	-	-	198,356	114	-	-	114
Derivatives	11,937	-	-	11,937	-	-	-	-
Loans and advances to customers	1,880,130	153,613	161,610	2,195,355	632	8,108	27,419	36,159
<i>of which : Large corporate clients</i>	<i>1,406,279</i>	<i>153,613</i>	<i>161,610</i>	<i>1,721,502</i>	<i>553</i>	<i>8,108</i>	<i>27,419</i>	<i>36,080</i>
<i>of which : SME clients</i>	<i>55,113</i>	-	-	<i>55,113</i>	<i>5</i>	-	-	<i>5</i>
<i>of which : Others</i>	<i>418,738</i>	-	-	<i>418,738</i>	<i>74</i>	-	-	<i>74</i>
Other financial assets	4,263	-	-	4,263	62	-	-	62
Total on-balance sheet financial assets in scope of ECL requirements	2,718,014	153,613	161,610	3,033,237	909	8,108	27,419	36,436

	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
<i>of which : Large corporate clients</i>	<i>1,122,993</i>	<i>124,910</i>	<i>152,285</i>	<i>1,400,188</i>	<i>1,905</i>	<i>7,185</i>	<i>2,364</i>	<i>11,454</i>
<i>of which : SME clients</i>	<i>31,881</i>	-	-	<i>31,881</i>	<i>5</i>	-	-	<i>5</i>
<i>of which : Others</i>	<i>262,155</i>	-	-	<i>262,155</i>	<i>48</i>	-	-	<i>48</i>
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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

Impairment allowance for loans and advances to customers	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	131	-	-	131
Standard grade	209	-	-	209
Sub-standard grade	282	8,108	-	8,390
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	27,419	27,419
	622	8,108	27,419	36,149

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 2019				
	Up to 3 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and other
Current Period					
Corporate and Commercial Loans	-	30,725	-	-	-
Retail Loans	-	-	-	-	-
Others	-	-	-	-	-
	-	30,725	-	-	-

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

10. Investment Property

As of 30 November 2015, the Parent Bank transferred the loan which is classified in the portfolio of The Pre-emption agreement on the real estate properties registered to the Serik District of Antalya Province which is owned by the Parent Bank account in "Other Assets" has not been realized due to the counterparty Vera Varlık Yönetim A.Ş. is not fulfilling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets" and recognized to "Investment Properties" in TL Currency and reevaluated with and independent valuation report (appraisal value: TL 138,955). Similarly, the Right to repurchase agreement on the real estate properties registered to which is owned by the Parent Bank account in "Other Assets" has not been realized due to the counterparty Palmali International is not fulfilling the obligations and the legal process is ongoing aforementioned real estate properties have been removed from "Other Assets" and recognized to "Investment Properties" in TL Currency and reevaluated with and independent valuation report (appraisal value: TL 47,260). Also, other investment properties accounted amounting to TL 37,330 in the account. As of 31 December 2019, the Group has investment property amounting to TL 223,545 (31 December 2018: 34,385).

11. Property and equipment

	Office equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2019	4,146	711	3,143	8,000
Acquisitions	470	7	5,844	6,321
Disposals	-	-	-	-
Balance at 31 December 2019	4,616	718	8,987	14,321
Depreciation				
Balance at 1 January 2019	2,474	275	1,211	3,960
Depreciation charge for the period	639	131	2,460	3,230
Disposals	-	-	-	-
Balance at 31 December 2019	3,113	406	3,671	7,190
Carrying value as of 31 December 2019	1,503	312	5,316	7,131

	Office equipment	Furniture and fixtures	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 at 31 December 2018	2,474	275	1,211	3,960
Carrying value as of 31 December 2018	1,672	436	1,932	4,040

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

12. Intangible assets

	2019	Total
Cost		
Balance at 1 January 2019	6,850	6,850
Additions	4,347	4,347
Balance at 31 December 2019	11,197	11,197
Amortization and impairment		
Balance at 1 January 2019	4,661	4,661
Amortization change for the period	1,725	1,725
Balance at 31 December 2019	6,386	6,386
Carrying value as of 31 December 2019	4,811	4,811

	2018	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 value as of 31 December 2018	2,190	2,190

13. Funds borrowed

	31 December 2019			31 December 2018		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Funds borrowed	409,922	463,010	872,932	309,131	505,933	815,064
Obligations under repurchase agreements	3,538	28,169	31,707	84,033	9,980	94,013
	413,460	491,179	904,639	393,164	515,913	909,077

The effective interest rate for funds borrowed denominated in USD is 4.73% (31 December 2018 – 5.63%), in EUR is 1.75% (31 December 2018 – 3.15%) and in TL is 10.70% (31 December 2018 – 25.41%).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 31 December 2019 (31 December 2018 – None).

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

14. Debt securities issued

	31 December 2019			31 December 2018		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds	717,235	-	717,235	718,363	-	718,363
Bills	46,033	-	46,033	17,943	-	17,943
	763,268	-	763,268	736,306	-	736,306

Debt securities issued – Cash flow movement

	31 December 2019
Balance as at 1 January 2019	736,306
Proceed during the year	5,046,664
Repayments during the year	(5,023,733)
Other non-cash movements	4,031
Balance as at 31 December 2019	763,268

As of December 31, 2019, the list of the issued bills and bonds by the Parent Bank in 2019 are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BOND	11.09.2019	10.01.2020	121	100,000,000	17.00%
BOND	17.10.2019	16.01.2020	91	50,000,000	15.50%
BOND	25.10.2019	05.02.2020	103	50,000,000	14.50%
BOND	07.11.2019	13.02.2020	98	100,000,000	13.85%
BOND	04.12.2019	26.02.2020	84	100,000,000	12.50%
BILL	01.03.2019	06.03.2020	371	50,000,000	23.00%
BOND	25.12.2019	11.03.2020	77	80,000,000	11.00%
BOND	27.06.2019	25.06.2020	364	100,000,000	25.00%
BOND	28.08.2019	26.08.2020	364	50,000,000	16.50%
BOND	28.11.2019	26.11.2020	364	50,000,000	12.00%
BOND	04.10.2019	19.03.2020	167	50,000,000	14.90%
BOND	17.10.2019	01.04.2020	167	50,000,000	15.70%
BOND	25.12.2019	19.03.2020	85	50,000,000	10.85%

Nurol Varlık Kiralama Şirketi A.Ş. issued "Lease certificates" amounting to TL 150,000,000 (full TL) in 2019.



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

15. Subordinated debts

	31 December 2019			31 December 2018		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds	-	29,761	29,761	-	53,781	53,781
Bills	-	60,544	60,544	-	26,473	26,473
	-	90,305	90,305	-	80,254	80,254

(*) 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 2018 – USD 15,000,000).

16. Other liabilities

	31 December 2019	31 December 2018
Cash collaterals (*)	963,645	618,939
Taxes and funds payable	7,461	5,272
Lease Liabilities	3,167	-
Others	13,499	28,644
	987,772	652,855

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

17. Provisions

	31 December 2018	31 December 2017
Provision for non-cash loans(*)	2,321	3,083
Employee termination benefits	1,445	1,064
Bonus accrual	-	3,279
Unused vacation accrual	1,779	1,401
Provision for lawsuits	16,807	200
	22,352	9,027

The movement in vacation pay liability is as follows:

	2019	2018
At 1 January	1,401	863
Provision provided /(reversal)	378	538
At 31 December	1,779	1,401

The movement in provision for bonus accrual is as follows:

	2019	2018
At 1 January	3,279	-
Provision provided	3,250	3,279
Bonus paid	(6,529)	-
At 31 December	-	3,279

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

	2019	2018
At 1 January	1,064	857
Provision provided /(reversal)	381	207
At 31 December	1,445	1,064

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

17. Provision (continued)

Employee termination benefits

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years (20 years for women) of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 6,379.86 for each period of service at 31 December 2019 (31 December 2018: TL 5,434.42).

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 2019, 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 2018: 10.00%) annual inflation rate and 15.00% (31 December 2018: 15.00%) discount rate.

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

Expected credit loss measurement	31 December 2019							
	Carrying Amount				ECL Allowance(*)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Guarantees	870,320	19,352	2,273	891,945	629	1,490	196	2,315
LCs and Acceptances	33,908	-	-	33,908	6	-	-	6
Total	904,228	19,352	2,273	925,853	635	1,490	196	2,321

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

Expected credit loss measurement	31 December 2018							
	Carrying Amount				ECL Allowance(*)			
	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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

17. Provision (continued)

Impairment allowance for off-balance sheet financial assets:

	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	20	-	-	20
Standard grade	396	-	-	396
Sub-standard grade	219	1,490	-	1,709
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	196	196
Total	635	1,490	196	2,321

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

	31 December 2019			
	Financial guarantees	Letters of credit and acceptances	Other undrawn commitments	Total
At 1 January 2019	3,062	21	-	3,083
Charge for the year	(747)	(15)	-	(762)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Unwind of transformed into cash	-	-	-	-
Unwind of discount (recognized in interest income)	-	-	-	-
At 31 December 2019	2,315	6	-	2,321

18. 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 2018: 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

18. Taxation (continued)

Income tax recognised in the income statement

The components of income tax expense as stated below:

	31 December 2019	31 December 2018
Current tax		
Current income tax	25,681	(17,269)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(6,988)	(1,176)
Income tax expense reported in the income statement	18,693	(18,445)

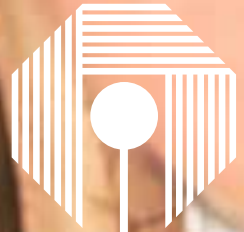
Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31 December 2019 and 31 December 2018 is as follows:

	31 December 2019	31 December 2018
Profit before income tax	87,205	83,435
Income tax using the domestic corporate tax rate (*)	(19,185)	(18,356)
Other	(6,496)	1,087
Total income tax expense in the profit or loss	(25,681)	(17,269)

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

	31 December 2019	31 December 2018
Deferred tax assets / (liability), net at 1 January	2,032	2,882
Deferred tax recognised in the profit or loss	6,988	(1,176)
Deferred income tax recognised in other comprehensive income	(279)	326
Deferred tax assets/(liabilities), net at end of December	8,741	2,032



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

18. Taxation (continued)

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Liability for employee benefits	709	-	709	542	-	542
Valuation of financial assets at FVOCI	-	118	118	(161)	-	-
Economic life property and equipment	(417)	-	(417)	-	(254)	(254)
Derivatives	6,433	-	6,433	2,389	-	2,389
Other	-	1,898	1,898	-	(484)	(484)
	6,725	2,016	8,741	2,770	(738)	2,032

19. 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 2019; commitments and contingencies comprised the following:

	31 December 2019	31 December 2018
Letters of guarantee	891,944	788,930
Bank acceptance	-	1,825
Letters of credit	33,909	4,044
Other commitments	-	-
Total	925,853	794,799

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

20. Share capital and reserves

Share capital

As at 31 December 2019 and 31 December 2018, 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.	236,947	78	125,052	78
Nurol İnşaat ve Tic. A.Ş.	50,112	16	25,536	16
Others	12,941	4	9,412	6
Total	300,000		160,000	

The Parent Bank's paid in capital has been increased by TL 60,000 provided from internal sources in the current period and also November 25, 2019, the Parent Bank's extraordinary general assembly took the decision about capital increase by TL 80.000 provided from cash in (January 1- December 31, 2018: The Parent Bank's paid in capital has been increased by TL 35,000 provided from internal resources).

As at 31 December 2019, the authorised share capital comprised of 300,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2018, the authorised share capital comprised of 160,000 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 2019, the Group's legal reserves amounted to TL 9,969 (31 December 2018 – TL 7,374).

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

20. Share capital and reserves (continued)

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.

At 31 December 2018	11,909
At 1 January 2019	11,909
Change in fair value through other comprehensive income (net of tax)	33,119
At 31 December 2019	45,028

21. Net interest income

	31 December 2019	31 December 2018
Interest income		
Loans and advances to customers	300,642	327,506
Deposits with banks and other financial institutions	31,984	14,119
Financial assets measured at fair value through profit/loss and financial assets measured at fair value through other comprehensive income	98,761	16,324
Financial leases	-	-
Other	28,022	21,174
	459,409	379,123
Interest expense		
Funds borrowed	74,329	44,674
Debt securities issued	132,668	131,050
Interbank funds borrowed	12,098	6,374
Financial leases	746	-
Other	30,540	22,329
	250,381	204,427
Net interest income	209,028	174,696

22. Net fee and commission income

	31 December 2019	31 December 2018
Fee and commission income		
Non-cash loans	19,967	13,785
Other	37,560	8,167
Total fee and commission income	57,527	21,952
Fee and commission expense		
Non-cash loans	1,911	866
Other	6,815	9,879
Total fee and commission expense	8,726	10,745
Net fee and commission income	48,801	11,207

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

23. Net trading income/loss

	31 December 2019	31 December 2018
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(9,150)	(20,777)
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss	(64,787)	(30,845)
Gain / (losses) from derivatives	(44,709)	54,234
Gain / (losses) from FX losses	(20,078)	(85,079)
Total	(73,937)	(51,622)

24. Other operating income

	31 December 2019	31 December 2018
Fair value gain on investment properties (***)	4,169	16,863
Gain on sales of assest	20	3,453
Dividend	-	151
Communication expenses reflected to the customers	281	26
Reversal of provision	311	19
Other(*)	8,137	2,097
Total	12,918	22,609

(*) The parent bank's takasbank income is TL 1,028, other communication income is TL 58, swift income is TL 2,602, rental income is TL 3,777 and other income is TL 672.

25. Other provision expenses

	1 January - 31 December 2019	1 January - 31 December 2018
Provision of lawsuits	16,843	-
Bonus expenses	-	3,279
Unused vacation expenses	378	538
Other expenses	194	376
Total	17,415	4,193

26. Personnel expenses

	31 December 2019	31 December 2018
Wages and salaries	18,486	14,284
Compulsory social security obligations	1,513	1,134
Other benefits	5,151	1,266
Total	25,150	16,684

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

27. Administrative expenses

	31 December 2019	31 December 2018
Nurol Holding re-charges	6,330	9,749
Audit and advisory expenses	9,029	4,703
Taxes and duties expenses	7,105	3,264
Rent expenses	202	2,299
Telecommunication expenses	1,947	1,477
Expenses made for non performing loans	-	1,083
Computer expenses	1,182	1,050
Maintenance expenses	339	526
Marketing expenses	1,534	293
Notary expenses	154	144
Advertising expenses	76	69
Transportation expenses	381	-
Other various administrative expenses	9,777	4,755
Total	38,056	29,412

28. 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



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups

	Individual	Corporate	Total
31 December 2018			
Performing loans	4,022	1,922,745	1,926,767
Loans under close monitoring	-	106,978	106,978
Non-performing loans	-	161,610	161,610
Gross	4,022	2,191,333	2,195,355
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(27,419)	(27,419)
Generic provisions for Stage 1 and Stage 2	-	(8,730)	(8,730)
Total	4,022	2,155,184	2,159,206
31 December 2017			
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	-	-	-
Reserve for possible loan losses	-	(2,364)	(2,364)
Collective impairment	-	(9,143)	(9,143)
Total	1,542	1,681,175	1,682,717

Exposure to credit risk

	Notes	Loans and advances to customers			
		Due from banks			
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Carrying amount	-	472,460	82,382	2,159,206	1,682,717
Non-performing financial assets	-	-	-	161,593	152,285
Gross amount	-	-	-	161,593	152,285
Specific provision for Stage 3	9	-	-	(27,419)	(2,364)
Generic provision for Stage 1 and 2	9	(101)	(6)	(8,730)	(9,143)
Neither past due nor impaired	-	472,359	82,376	2,107,655	1,584,785
Carrying amount	-	472,359	82,376	2,107,655	1,584,785
Restructured and rescheduled loans and other receivables	-	-	-	51,551	97,932
Carrying amount	-	-	-	51,551	97,932
Carrying amount (amortised cost)	-	472,359	82,376	2,159,206	1,682,717

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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)	622,146	-	-	-	-	-	-	-	622,146	101
Loans and advances to customers	2,263,508	18,547	480,785	79,042	128,705	99,685	2,376	809,140	1,454,368	36,159
of which : Large corporate clients	1,787,612	18,547	309,585	79,042	128,705	99,685	2,376	637,940	1,149,672	30,080
of which : SME clients	55,113	-	33,946	-	-	-	-	33,946	21,167	5
of which : Others	420,783	-	137,255	-	-	-	-	137,255	283,528	74
Other financial assets	4,263	-	-	-	-	-	-	-	4,263	62
Derivative financial instruments	11,937	-	-	-	-	-	-	-	11,937	-
Securities at fair value through OCI	70,159	-	-	-	-	-	-	-	70,159	114
Guarantees (after Credit Conversion Factor)	536,105	9,834	19,210	18,365	2,208	1,024	-	50,641	485,464	2,119
LCs and Acceptances (after Credit Conversion Factor)	8,329	-	-	-	-	-	848	848	7,481	6

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

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 of which : Large corporate clients of which : SME clients of which : Others	2,377,508	3,729	149,748	94,742	161,285	90,781	2,112	502,398	1,875,110	11,507	
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	

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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	376,333	0.04%	45.00%
89-87	Very high+	High grade	0.0001-0.02	AA+	3,924	0.00%	0.00%
86-84	Very high	High grade	0.0001-0.02	AA	186,626	0.04%	45.00%
83-81	Very high-	High grade	0.0001-0.03	AA-	247,055	0.04%	45.00%
80-78	High+	High grade	0.0001-0.05	A+	150,164	0.04%	45.00%
77-75	High	High grade	0.0002-0.06	A	12,207	0.00%	0.00%
74-72	High-	High grade	0.0002-0.07	A-	252,522	0.08%	29.71%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	157,885	0.08%	9.95%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	358,730	0.06%	16.79%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	248,107	0.10%	39.47%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	123,129	0.30%	15.65%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	271,402	0.19%	26.94%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	39,040	0.45%	7.76%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	35,364	2.15%	44.36%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	57,885	15.47%	31.63%
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	942	10.20%	44.04%
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	27,688	77.76%	30.26%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	24,381	0.00%	0.00%
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	0.00%	0.00%
Total Performing					2,573,383	1.39%	28.87%
Non-performing							
29-0	In default		100-100	D	161,610	100.00%	16.97%
Total Nonperforming					161,610	100.00%	100.00%



Master Leather Craftsman

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

b) Credit risk (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+	23	0.04%	45.00%
86-84	Very high	High grade	0.0001-0.02	AA	1,385	0.04%	45.00%
83-81	Very high-	High grade	0.0001-0.03	AA-	8,559	0.04%	45.00%
80-78	High+	High grade	0.0001-0.05	A+	15,001	0.05%	45.00%
77-75	High	High grade	0.0002-0.06	A	-	0.00%	0.00%
74-72	High-	High grade	0.0002-0.07	A-	56,756	0.06%	45.00%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	49,320	0.09%	38.40%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	86,505	0.11%	29.69%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	56,611	0.21%	45.00%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	101,253	0.23%	44.12%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	99,489	0.44%	44.91%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	9,721	0.58%	40.03%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	27,333	1.62%	44.87%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	2,014	4.63%	33.64%
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	-	0.00%	0.00%
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	12,143	29.68%	45.00%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	-	0.00%	0.00%
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	0.00%	0.00%
Total Stage 1 & 2					526,113	0.98%	44.34%

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	152,285	100.00%	17.29%
Total Stage 3					152,285	100.00%	17.29%

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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	
	2019	2018	2019	2018
Banks	472,359	82,376	116,731	40,152
Manufacturing	-	-	359,132	40,137
Production	-	-	359,132	40,137
Construction	-	-	294,696	205,714
Services	-	-	939,100	882,489
Wholesale and retail trade	-	-	66,003	93,042
Hotel food and beverage services	-	-	-	16,079
Financial institutions	-	-	568,265	434,331
Communication services	-	-	98,511	111,954
Health and social services	-	-	867	1,823
Renting Service	-	-	205,454	225,260
Other	-	-	315,356	364,304
Non-performing loans net	-	-	134,191	149,921
Total	472,359	82,376	2,159,206	1,682,717

	Notes	Due from banks		Loans and advances to customers	
		2019	2018	2019	2018
Turkey	-	28,763	25,340	1,734,067	1,297,618
Europe	-	60,779	30,297	220,048	88,745
Other	-	382,817	26,739	205,091	296,354
	6, 9	472,359	82,376	2,159,206	1,682,717

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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.

Sectors	Loans(*)		Expected Credit Losses (IFRS 9)
	Significant increase in credit risk (Stage 2)	Defaulted (Stage 3)	
1. Agriculture	-	-	-
1.1. Farming and Stockbreeding	-	-	-
1.2. Forestry	-	-	-
1.3. Fishery	-	-	-
2. Manufacturing	41,340	-	1,755
2.1. Mining and Quarrying	-	-	-
2.2. Production	-	-	-
2.3. Electricity, Gas and Water	41,340	-	1,755
3. Construction	38,605	17	17
4. Services	72,222	161,593	33,717
4.1. Wholesale and Retail Trade	-	-	-
4.2. Hotel food and beverage services	-	161,398	27,207
4.3. Communication Services	-	-	-
4.4. Financial Institutions	-	195	195
4.5. Renting Services	71,366	23,000	6,314
4.6. Professional Services	-	-	-
4.7. Educational Services	-	-	-
4.8. Health and Social Services	856	-	1
5. Other	1,446	-	38
6. Total	153,613	161,610	35,527

(*) Including only cash loans.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Macroeconomic Scenario Analysis

Key Drivers	ECL Scenario	Assigned Probabilities	2019					Subsequent Years	
			2019	2020	2021	2022	2023	2022	2023
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	3.75	3.94	3.74	3.93	3.73		3.92
	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 2019, the Parent Bank has derivative financial assets at FVTPL amounting to TL 11,937 (31 December 2018 – TL 24,929). An analysis of the credit quality of the maximum credit exposure is as follows:

	31 December 2019	31 December 2018
Derivative financial assets	11,937	24,929
Fair value and carrying amount	11,937	24,929

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 198,633 as at 31 December 2019 (31 December 2018 - TL 140,160) represents the operational risk that the Group may expose and the amount of minimum capital requirement to eliminate this risk.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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 2019	31 December 2018
Amount subject to credit risk (I)	3,189,103	2,147,685
Amount subject to market risk (II)	59,713	36,893
Amount subject to operational risk (III)	198,633	140,160
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+III)	3,447,449	2,324,738
Shareholders' equity:		
Tier 1 capital	438,876	263,502
Tier 2 capital	100,118	90,708
Total regulatory capital	538,994	354,210
Capital adequacy ratio	15.64%	15.24%



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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
2019							
Cash and cash equivalents	6	-	473,645	-	-	473,645	473,645
Reserve deposits at Central Bank	7	-	149,683	-	-	149,683	149,683
FVTPL investments		11,937					
FVOCI financial assets	8	-	-	198,356	-	198,356	198,356
Loans and advances to customers(1)	9	-	2,159,206	-	-	2,159,206	2,123,037
Other asset		-	-	-	4,201	4,201	4,201
		11,937	2,782,534	198,356	4,201	2,985,091	2,948,922
Funds borrowed	14	-	-	-	904,639	904,639	1,094,143
Debt securities issued(1)	15	-	-	-	763,268	763,268	763,268
Derivative financial liabilities		43,444	-	-	-	43,444	43,444
Other liabilities	17	-	-	-	963,645	963,645	963,645
		43,444	-	-	2,631,552	2,674,996	2,864,500

(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	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	2,312,645	80,431	185,156	2,578,232	2,578,232
Funds borrowed	14	-	-	-	909,077	909,077	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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

e) 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		11,937	-	-	11,937
Financial assets measured at fair value through other comprehensive income	8	198,356	-	-	198,356
Investment property		-	223,545	-	223,545
Derivative financial liabilities		-	43,444	-	43,444

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

f) 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 2019 and 31 December 2018 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			2018		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	3,851	5,344	1,916	3,201	4,280	1,660
Equity price risk	-	-	-	-	-	-
Currency risk	1,956	3,042	1,552	1,641	4,890	265
Counter party risk	-	-	-	-	-	-
Total value-at-risk	5,807	8,386	3,468	4,642	9,170	1,925

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) 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
2019				
Assets				
Cash and cash equivalents	219,363	221,103	4,210	444,676
Reserve deposits at Central Bank	33,935	95,562	-	129,497
Loans and advances to customers	184,703	556,374	-	741,077
Available for sale investments	56,032	-	-	56,032
Other assets	4	-	-	4
Total assets	494,037	873,039	4,210	1,371,286
Liabilities				
Funds borrowed	101,051	227,816	3,869	332,736
Subordinated debts	90,305	-	-	90,305
Other liabilities	183,658	889,153	-	1,072,811
Total liabilities	375,014	1,116,969	3,869	1,495,852
Gross exposure	119,023	(243,930)	341	(124,566)
Off-balance sheet position				
Net notional amount of derivatives	(120,458)	245,515	-	125,057
Net exposure	(1,435)	1,585	341	491

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) Market risk (continued)

Currency risk (continued)

	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

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2019 and 31 December 2018 would have effect on the equity and profit or loss by the amounts shown below.

2019	Equity	Profit or loss
EUR	159	159
USD	(149)	(144)
Other currencies	34	34
Total	44	49

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



NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) 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 2019 and 31 December 2018:

	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 2019							
Assets							
Cash and cash equivalents	48,669	-	-	-	-	424,976	473,645
Reserve deposits at Central Bank	129,497	-	-	-	-	20,186	149,683
FVTPL investments	6,969	4,534	434	-	-	-	11,937
Financial assets at fair value through other comprehensive income	17,777	30,951	16,770	1,011	-	131,847	198,356
Loans and advances to customers	1,283,855	61,038	319,015	471,236	24,062	-	2,159,206
Other assets	-	96,523	336,219	472,247	24,062	838,132	3,253,950
Total assets	1,486,767						
Liabilities							
Funds borrowed(*)	301,077	91,599	126,442	-	52,877	362,405	934,400
Debt securities issued(**)	122,034	436,859	204,375	-	60,544	-	823,812
Other liabilities(***)	532,715	374,442	49,771	-	-	538,810	1,495,738
Total liabilities	955,826	902,900	380,588	-	113,421	901,215	3,253,950
On balance sheet interest sensitivity gap	530,941	(806,377)	(44,369)	472,247	(89,359)	(63,083)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	530,941	(806,377)	(44,369)	472,247	(89,359)	(63,083)	-

(*) Includes subordinated loans amounting to TL 29,761.

(**) Includes subordinated bonds amounting to TL 60,544.

(***) Derivative financial instruments are included in other liabilities.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) 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 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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) Market risk (continued)

Summary of average interest rates

As at 31 December 2019 and 31 December 2018, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2019			31 December 2018		
	Euro	USD	TL	Euro	USD	TL
Assets						
Cash and balances with the Central Bank	-	1.50	13.00	-	1.50	13.00
Due from banks	0.03	2.39	18.23	0.04	2.00	18.92
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	19.72
FVTOCI investments	-	10.07	29.49	8.07	11.17	15.32
Loans and advances to customers	6.74	8.56	25.08	6.41	10.44	25.83
Other	-	-	-	-	-	-
Liabilities						
Other money market deposits	0.71	1.64	9.70	-	-	-
Funds borrowed	6.37	7.13	16.81	4.68	6.41	19.89
Debt securities issued	-	10.00	19.13	-	10.00	17.15
Funds from other financial institutions	3.78	3.96	21.83	2.34	4.56	20.32

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) Market risk (continued)

Liquidity risk

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

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

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis and maintains liquid assets, which it judges sufficient to meet its commitments. As at 31 December 2019 and 31 December 2018, the following table provides the contractual maturities of the Group's financial liabilities.

	31 December 2019						
	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	904,639	1,094,143	932,081	96,101	-	-	65,961
Debt securities Issued	763,268	803,320	702,365	100,955	-	-	-
	1,667,907	1,897,463	1,634,446	197,056	-	-	65,961

	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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) 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	424,976	48,669	-	-	-	-	-	473,645
Reserve deposits	20,186	129,497	-	-	-	-	-	149,683
FVTPL investments	-	6,969	4,534	434	-	-	-	11,937
Available for sale investments	-	-	-	3,333	14,871	48,305	131,847	198,356
Loans and advances to customers	-	1,283,855	61,038	319,015	495,298	-	-	2,159,206
Other assets	5	25,632	-	-	-	-	235,486	261,123
Total assets	445,167	1,494,622	65,572	322,782	510,169	48,305	367,333	3,253,950
Funds borrowed (*)	362,406	301,077	91,598	126,442	-	52,877	-	934,400
Debt securities issued(**)	-	122,034	436,859	204,375	-	60,544	-	823,812
Other liabilities	87,722	532,725	374,443	49,771	-	-	451,077	1,495,738
Total liabilities	450,128	955,836	902,900	380,588	-	113,421	451,077	3,253,950
Liquidity gap	(4,961)	538,786	(837,328)	(57,806)	510,169	(65,116)	(83,744)	-
Off Balance Sheet Position	-	(13,524)	(2,633)	(10,752)	(24,068)	-	-	(50,977)
Receivables from derivatives	-	989,602	373,635	146,304	35,332	-	-	1,544,873
Liabilities from derivatives	-	1,003,126	376,268	157,056	59,400	-	-	1,595,850
Non cash loans	-	450	54,656	73,124	76,853	720,770	-	925,853

*) Includes subordinated loans amounting to TL 29,761.

(**) Includes subordinated bonds amounting to TL 60,544.

(***) Derivative financial instruments are included in other liabilities.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

28. Financial risk management objectives and policies (continued)

f) Market risk (continued)

Exposure to liquidity risk (continued)

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.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ NOTES TO THE CONSOLIDATED STATEMENT AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2019

(Currency - In thousands of Turkish Lira)

29. 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 2019	Balance	Percentage of the financial statement amount (%)
Cash loans	331,465	15%
Non-cash loans	19,369	2%
Borrower funds / Funds borrowed	110,136	12%

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 2019	Balance	Percentage of the financial statement amount (%)
Interest income and commissions	62,654	14%
Other operating expense (-)	6,330	7%

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

As at 31 December 2019, no provisions have been recognised in respect of loans given to related parties (31 December 2018 – 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 12,671 comprising salaries and other benefits for the period 1 January- 31 December 2019 (1 January - 31 December 2018: TL 8,677).

30. Events after balance sheet date

98,610 TL (gross) cash collection was made in February 19, 2020 from the loan receivables followed by The Parent Bank's non performing loans account.



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