JCR-ER JCR Eurasia Rating
"JCR-ER, Group of Japan Credit Rating Agency, Ltd." JCR

Corporate Credit Rating

☐New ☒Update

Sector: Banking

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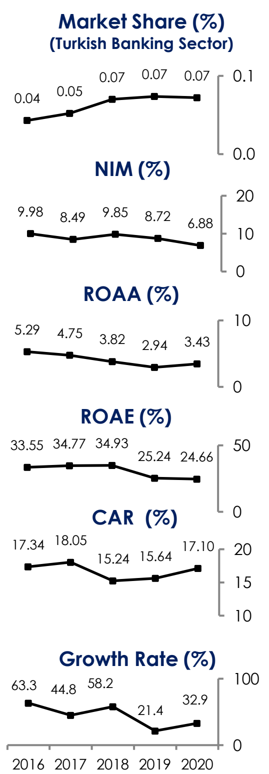
RATINGS

			Long Term	Short Term
National	Local Rating		AA (Trk)	A-1 (Trk)
National	Outlook		Stable	Stable
National	Issue Rating		AA (Trk)	A-1 (Trk)
International	Foreign Currency		BB+	B
International	Local Currency		BB+	B
International	Outlook	FC	Negative	Negative
International	Outlook	LC	Negative	Negative
Sponsor Support			1	-
Stand-Alone			AB	-
Sovereign*	Foreign Currency		BB+	-
Sovereign*	Local Currency		BB+	-
Sovereign*	Outlook	FC	Negative	-
Sovereign*	Outlook	LC	Negative	-

***Assigned by JCR on April 10, 2020**

RATIOS



Nurol Yatırım Bankası A.Ş.

JCR Eurasia Rating evaluated the consolidated structure of **"Nurol Yatırım Bankası A.Ş."** affirmed the ratings as **"AA (Trk)"** on the Long-Term National Scale and as "**A-1 (Trk)"** on the Short-Term National Scale with '**Stable'** outlooks. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned as **'BB+/ Negative'**.

Nurol Yatırım Bankası A.Ş. (hereinafter "**Nurol Bank**" or the "**Bank**"), incorporated on August, 1998, is a national private bank. The Bank provides services in the field of Corporate Banking, Investment Banking and Treasury & Financial Institutions through its diversified corporate clientele with a staff force of 66 people in FYE2020.

The majority shareholders of the Bank were Nurol Holding A.Ş. (78.98%) and Nurol İnşaat ve Tic. A.Ş. (16.70%), which also has direct and indirect control over the Nurol Group- Nurol Holding Inc., founded in 1989, has operations in construction, defense, 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.

Key rating drivers, as strengths and constraints, are provided below.

Strengths	Constraints
• Maintenance of loan-driven moderate growth strategy accompanied by defending margins, • The collection of overdue and non-performing loans supporting asset quality of 2020, • Earnings power with core indicators above the sector and maintaining NIM, • Sufficient capital ratios continuing to indicate the capacity to absorb incidental losses, • High level of compliance with corporate governance best practices and continuity of well-established risk management practices.	• Scarce alternative delivery channels and lack of revenue stream to provide continuity of efficiency rates, • Ongoing credit risk concentration among the top ten cash and non-cash loans customers deteriorating asset quality, • Concerns on the bank's asset quality and revenue streams and higher credit loss provisions due to Covid-19 outbreak worsening macroeconomic environment.

Considering the mentioned drivers, the Bank's the Long-Term National Rating has been affirmed as **"AA (Trk)"**. Taking into account the capability to independently survive irrespective of the support from the current shareholders and at the system level, adequate capitalization structure, internal resource generation capacity, ability to access international funding markets and roll-over debt, the presence of prudent provisions in addition to the high level of specific loan loss provisions and the asset quality accompanied by selective and efficiency focused credit policies as well as the possible negative effects of the Covid-19 outbreak on the Turkish banking sector.; the Bank has been affirmed with '**Stable**' outlooks in the long- and short-term perspectives.

Non-performing loans due to downward efficiency in economic activities caused by the Covid-19 Pandemic and the erosion in the debt payment capacity raising provisioning requirement, resulting a higher credit risk cost, and the impact of the decisions taken by the regulatory authorities on the sector will be the issues to be monitored in the future.

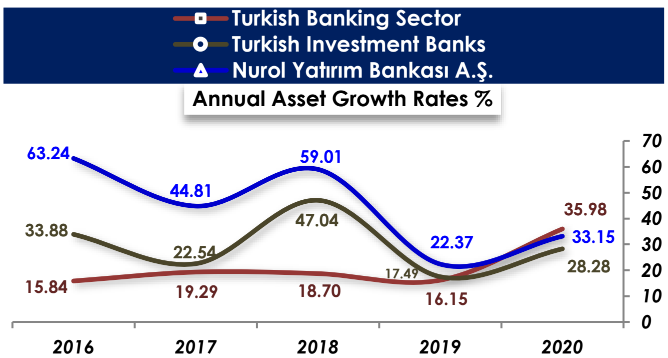
The Sponsor Support Note of **Nurol Yatırım Bankası A.Ş.** 's has been determined considering the financial strength and support willingness of the sole shareholder Nurol Holding that shall provide assistance to the Bank to meet any immediate financial needs if required. In this regard, the Company's Sponsor Support Note has been affirmed as "**1**", which denotes high level of external support.

Considering high asset quality, diversified resource structure, balance sheet composition along with strong internal equity generation capacity, corporate governance implementations of the Bank's, the Stand Alone Note of the Bank has been affirmed as "**AB**", corresponding to high level in JCR Eurasia Rating's notation system.

1. Rating Rationale

Maintenance of Loan-Driven Moderate Growth Strategy Accompanied by Defending Margins

Nurol Bank experienced robust growth performance through almost all principal banking segments in FY2020. The growth in assets and loans were 32.92% and 43.20%, respectively regarding IFRS based financials and underperformed the averages of the Turkish Banking Sector (36.00% and 34.70%) and Turkish Development and Investment Banking Sector (28.28% and 24.55%) sectors. The Bank's strategy is to create a diversified corporate loan book targeting high-quality. The graph below presents the growth of the Bank's cumulative asset growth rate in comparison with the sector.



Cumulative asset-based growth performance of the Nurol Bank remained above the average growth performance of the Turkish Development and Investment Banking Sector since 2016, except 2020.

The continuation of financial markets, the healthy functioning of credit channels and the companies' cash flow had paramount importance to limit the negative impacts of Covid-19 pandemic on the Turkish economy. Interest rates have fallen sharply by the first and second quarters of 2020. Although interest rate rose sharply during 2Q2020 and 3Q2020, interest rates remained low throughout the year which led to loan growth to support consumers' lagged needs and companies' working capital needs.

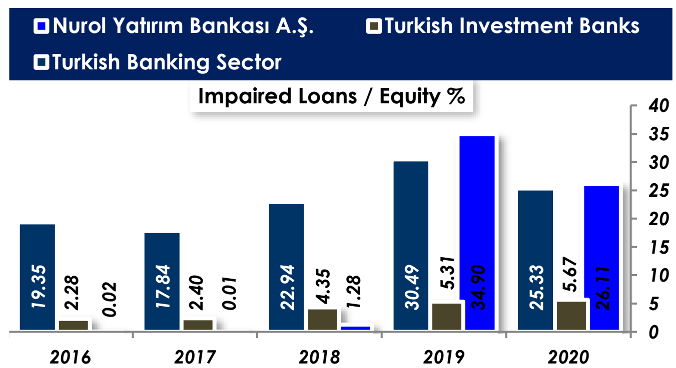
The Collection of Overdue and Non-Performing Loans Supporting Asset Quality of 2020

As of FYE2020, the Bank's loans loss reserves to impaired loans ratio was 84.12% and increased from 16.97% as of FYE2019. Accordingly, the ratio stood below both the Turkish Banking & Investment Banking Sector averages which are 118.46% for FYE2020 and 86.52% for FYE2019. However, Nurol Bank had outperformed the sector averages in its loan loss provisioning level until FYE2017 by pursuing a flat Loan Loss Provision (LLP) level (100% of total NPLs booked as at the end of FY2017).

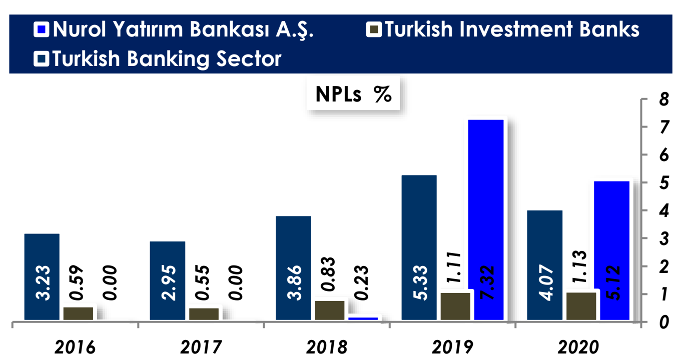
With respect to the adoption of TFRS 9 as of January 1,2018, the figures are not comparable across the years and FY2018-19 comparable figures include only Stage-3 coverage based on the 12-month expected credit losses (ECL) approach.

It should be noted that the differentiation among banks with regard to staging with the introduction of the expected loss principle instead of the incurred loss through IFRS 9 / TFRS 9, which allow considerable room for judgement, has widened due the distinct approaches adopted by the banks both in qualitative assessments and quantitative ones as well, particularly in the SICR (Significant Increase in Credit Risk) definition.

The Bank has provisions for Stage-3 and Stage 1-2 of TRY72.53mn and TRY25.55 as of FY2020, respectively.



The Bank's gross NPL volume stood atTRY86.22mn in FYE2020 (FYE2019: TRY161.61mn.). With the decrease in overdue loans, that of the loan receivables decreased in the NPLs ratio to 5.12% as of FYE2020 from 7.32% as of FYE2019 due to recovery, collection and other transactions as of FYE2020. The ratio exceeded the averages for both the Turkish Banking Sector and Turkish Development and Investment Banking Sector since 2018. Non-performing loans amounting to TRY44.4mn has been written off by the Bank during 2018.

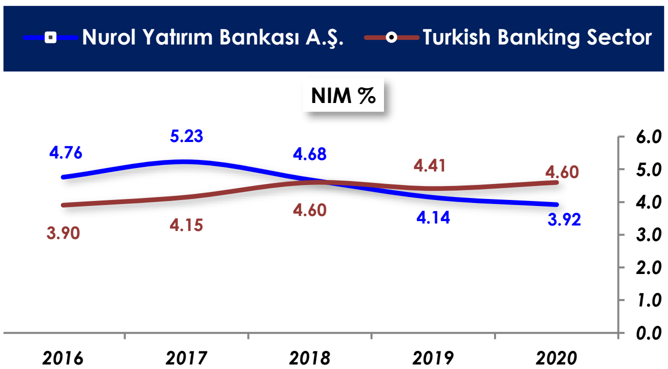


NPL sale and write-off are frequently observed in the sector, while the Bank did not sell or write of non-performing loans during 2019 and 2020.

Earnings Power with Core Indicators Above the Sector and Maintaining NIM

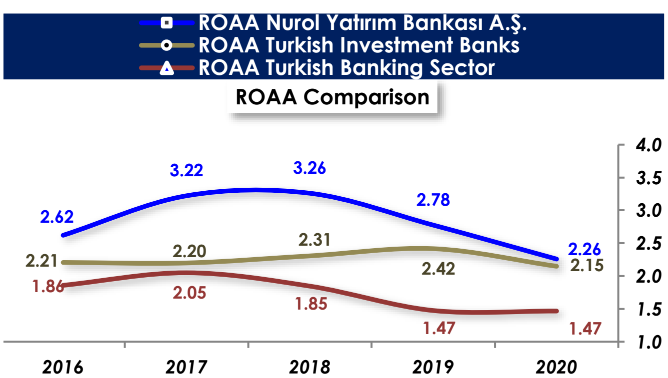
As per consolidated IFRS based reports, Nurol Bank achieved a net profit of TRY108.9mn in FY2020, exhibiting an improvement of 58.95% compared to the previous year's TRY68.51mn. In the same period, the Turkish banking sector's net profits exhibited increase of 19.29% and while the development & investment banking sector's net profit figure demonstrated a drop of 8.52%.

On the other hand, its net interest income (NII) increased slightly by 4.56% to TRY218.55mn in the same period. Due to remarkable earning asset growth, interest margin decreased in 2020 and the margin remained below the sector averages over the reviewed period.

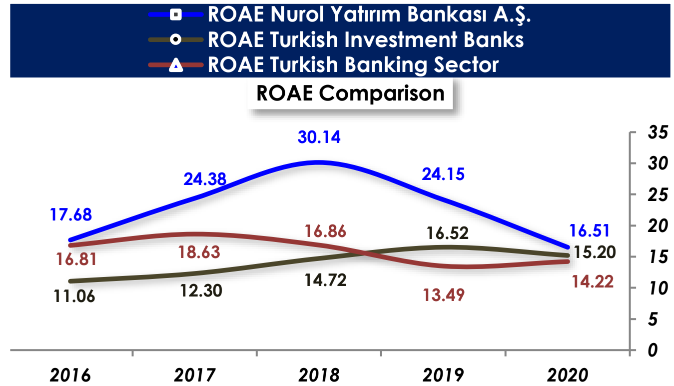


The Bank's gross interest income decreased by 12.30% to TRY402.86mn and the net fee & commission income decreased by 51.48% to TRY23.67mn in FYE2020.

The indicators of both ROAAs and ROAEs have outperformed the sector averages during the previous six years while the differences have become more blurred in the last period.



The return on average equity (ROAA) ratio of Nurol Bank decreased to 2.26% in FY2020 from 2.78% in FYE2019 and outperformed the Turkish Banking Sector and the Turkish Development and Investment Banking Sector averages of 1.47% and 2.15%, respectively during FY2020.



In tandem with increasing equity size, IFRS based return on equity ratio of Nurol Bank declined to 16.51% from 24.15% at the end of 2020 staying above the Turkish Banking Sector and the Turkish Development and Investment Banking Sector averages.

Sufficient Capital Ratios Continuing to Indicate the Capacity to Absorb Incidental Losses

Nurol Bank's IFRS-based CAR was 17.10% at the end of FY2020, increased from 15.64% at the end of FY2019 and remained above the minimum CAR requirements set by the Basel Accord (8%) and the recommended level by the BRSA (12%). Since FY2017, the Bank's unconsolidated capital adequacy ratio (CAR) stood below the average of the Turkish Banking Sector and Turkish Investment Banking Sector. The Bank's Tier1 ratios was 13.94% as of FYE2020 (FYE2019: 12.73. We, as JCR Eurasia Rating, assume that the current CAR ratio provides satisfactory capital to buffer potential incidental losses.

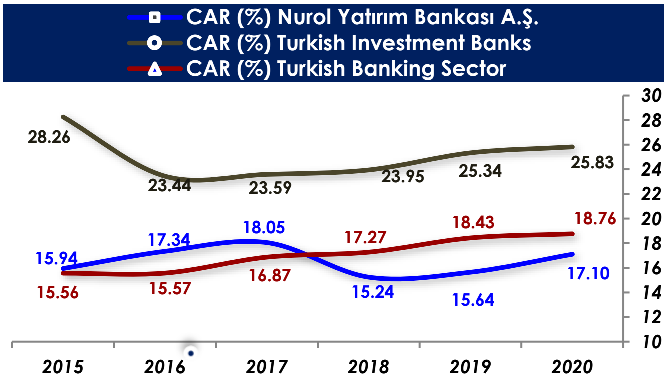
The BRSA regulation had a positive effect of 146 bps on CAR as of December 31,2020.

With its decision dated March 17, 2020 and its decision dated March 27, 2020, Banking Regulation and BRSA decided that the following measures would be in force until June 30, 2021:

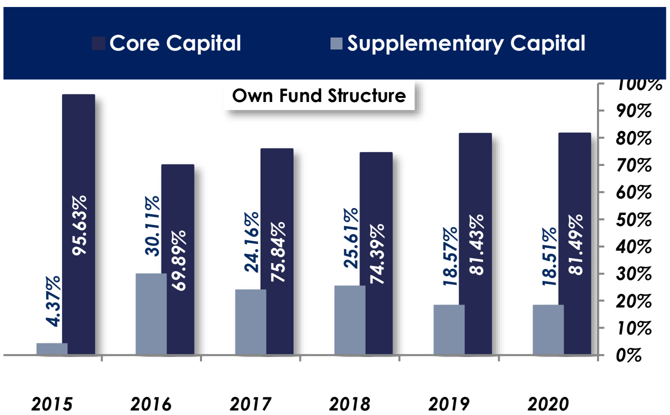
i. The 30-day past due criteria used for loans to be classified under group 2 loans pursuant to the BRSA Regulation on Classification of Loans and Provisions, has been changed to 90 days,

ii. The 90-day past due criteria used for loans to be classified as non-performing loans has been changed to 180 days.

The BRSA regulation had a positive effect of 58 bps on Stage-2 loans during FYE2020.



In addition to growth in Common Equity Tier 1 Capital and Tier 2 Capital, Additional Tier 1 Capital amounting to TRY615.7mn in FY2020 (FY2019: TRY438.87mn.) particularly in FY2020 - specifies the success of the management - supported the strengthening of CAR ratio.



The share of core capital, principally consisting of paid-up capital and retained earnings, accounted for 81.49% of the Bank's total own fund structure in FY2020 (FY2019: 81.43%). Above ratios specify the Bank's lower reliance on Tier 2 capital, which is not considered to be loss absorbing. The supplementary capital accounted for 18.51% of the Bank's own fund structure at FYE2020.

Based on the decision taken at the Ordinary General Assembly held on July 1, 2020, the Bank's paid-in capital was raised to a total of TRY360mn. from TR3000mn., via TRY60mn. internal resources.

High Level of Compliance with Corporate Governance Best Practices and Continuity of Well-Established Risk Management Practices

Nurol has high compliance level with the corporate governance principles particularly regarding the exercise of shareholders' rights, efficient and comprehensive system of public disclosure and the Bank website together serving as an effective platform in their supporting the transparency level, comprehensive risk management system with functionalized organizational units of internal control and internal audit, contributions to publicly known event and project.

Ongoing Credit Risk Concentration Among the Top Ten Cash and Non-Cash Loans Customers Deteriorating Asset Quality

The loon book portfolio was well diversified in terms of industrial composition while customer concentration remains a risk factor continued in 2020. The Bank focuses to fund large projects that continue to improve its interest margin. The Bank's largest 10 and 20 corporate customers constituted 70.17% and 90.15% (FYE2019: 61.68% and 82.47%) of the total corporate cash loans and 64.66% and 83.62% (FYE2019: 63.45% and 81.72%) of total non-cash loans, maintaining still high concentration levels, respectively.

The Cash Loan Book Composition were well distributed with respect to sectoral breakdown including, 57.63% in others, 28.44% in Non-Bank FIs, 24.78% in construction and 22.37% in renting services.

Concerns on the Bank's Asset Quality and Revenue Streams and Higher Credit Loss Provisions Due to Covid-19 Outbreak Worsening Macroeconomic Environment

As of the reporting date, many European countries, including Turkey, the US and China are in combat with the coronavirus pandemic. The rapid spread of the virus to the entire world has turned economic activities upside down and the expectations for the rest of the year have become significantly pessimistic. Many large and small companies reduced their operations, interrupted their production, or dismantle their activities completely. While unemployment becomes a major concern, the ultimate impact is expected to be a serious contraction in terms of GDP. Amid the outbreak, most countries applied lockdown or ring-fenced outside activities.

The COVID-19 outbreak is expected to create far-reaching negative economic consequences for many companies. Banks are one of the most important institutions for the financial system to operate in the country's economy and channel resources into the right areas. Despite all these measures, the global Covid-19 outbreak is expected to have varied effects that will negatively affect banks' ratios in 2021. Deterioration in economic growth outlook fracture demands for loans and also cause to higher credit loss provisions for the banks-reporting under IFRS- 9.

Hence, BRSA has taken certain measures regarding the COVID-19 outbreak with its decision dated March 17, 2020 and no. 8948. BRSA statement on actions to mitigate the impact of COVID-19 on the Turkish banking sector.

- The 90 days default period for loans to be classified as non-performing loans (NPL) is 180 days.

- For loans that continue to be classified in the Stage 2 in spite of the 90-day default, banks will continue to set aside provisions in accordance with their own risk models used in the calculation of expected loan loss under TFRS 9.

- For receivables that are not transferred to the bad debt account in spite of the 90-day default, financial institutions will continue to set aside provisions in accordance with their own risk models.

- Banks will no longer be required to classify, as a category 3 loan, the loans restructured and classified as performing loans following the restructuring and where the principal and/or interest payments have been overdue for more than 30 days within the one-year monitoring period or restructured once again within this period.

- These measures will be valid until December 31, 2020 and applicable to all loans and other receivables recorded in the assets of banks' balance sheet. With the decision dated December 8, 2020 no. 9312, time extended, thereby, these measures will be valid until 30 June 2021.

2. Rating Outlook

JCR Eurasia Rating has affirmed the **"Stable"** outlooks on the Short and Long Term National Ratings and **"Negative"** outlooks on the Short and Long Term International Ratings perspectives of Nurol Bank, taking into account the financials' strength, market influence & efficiency and the expectation that the Bank's current ratings will be preserved in the near future with a condition of the continuity of current political stability and no further deterioration in economic stability.

Crucial considerations which would constrain the ratings and outlook status are (i) if the continuation of slowdown in economic activities stemming from Covid-19 breakout in both Turkey and the remainder of the world takes longer than expected (ii) developments in the sovereign rating level of Turkey, (iii) probable adversities in accessing external financing sources, (iv) deterioration in asset quality through accelerated increase in NPLs, (v) weakening of profitability indicators, (vi) diminishing capital adequacy strength, (vii) deterioration in liquidity ratios, (viii) developments in international politics particularly relating to Turkey's neighboring countries (ix) possible regulatory actions that would restrain the profitability & growth performance of the sector.

3. Sponsor Support and Stand Alone

Sponsor Support notes and risk assessments reflect the financial strength and expected assistance of the controlling shareholders. It is considered that the utmost shareholder has the tendency and satisfactory financial strength to offer financial support when liquidity needs arise in the short- or long-term perspective. Based on these assessments, the Sponsor Support Note of the Bank has been affirmed as "**1**", which denotes a strong external support possibility.

The stand-alone note has been constituted particularly regarding asset quality, internal resource generation capacity, profitability ratios, adequate capital and liquidity levels, balance sheet structure, risk management practices, market share and the development of existing risks in the markets and business environment. Within this context, the Stand-Alone Grade of the Bank has been affirmed as "**AB**" in JCR Eurasia's notation system, which signifies a strong and credible bank.

4. Company Profile

a. History

Nurol Yatırım Bank has started investment banking activities in 1999 and commenced its operations in May 1999, falls under the regulatory purview of the Banking Regulation and Supervision Agency of Turkey (BRSA), provides services in the field of Corporate Banking, Investment Banking and Treasury & Financial Institutions via its a branch with a staff force of 66 people as of 2020.

b. Organization and Employees

The Board of Nurol Bank consists of nine members, three of whom are independent members and a general manager. According to Capital Market Board (CMB) principles three of Board Members should be independent and the members of the audit committee of the BoD are accepted as independent members. The Bank has Audit Committee, Corporate Governance Committee, Pricing Committee, Disciplinary and Personnel Committee, Assets and Liabilities Committee, Credit Committee, Information Systems Strategy Committee under the BoD and also 2 chief assistant general managers, 4 assistant general managers.

c. Shareholders and Subsidiaries

The main shareholder of Nurol Bank is Nurol Holding A.Ş., which holds 78.98% of total shares. Nurol Holding A.Ş., although set up in 1989; trace back to the establishment of its flagship company Nurol İnşaat ve Ticaret A.Ş in 1966. The Parent Bank's paid in capital has been increased by TRY140mn to TRY300mn provided from internal sources in the current period during 2019 and also rose by TRY60mn to TRY360mn in 2020. The table below indicates the detailed shareholding structure of the Bank in FYE2020-19. Nurol Bank has not accepted a registered capital system.

Shareholders Structure	2020		2019	
	Share Amount	Share %	Share Amount	Share %
Nurol Holding A.Ş.	284,337	78.98	236,947	78.98
Nurol İnş ve Tic A.Ş.	60,134	16.70	50,112	16.70
Others	15,529	4.32	12,941	4.32
Paid Capital (000 TRY)	360,000	100.00	300,000	100.00

Nurol Holding A.Ş has engaged in various industries, such as Construction and Contracting, Defence and Production, Financial, Commercial and Services, Energy and Mining Sector, Tourism sectors continues its activities with industries through app. 40 firms within the Nurol Group with joint ventures and domestic foreign associates and subsidiaries in Turkey and the Middle East, North Africa, Turkic Republics. Nurol Holding, trace back to the establishment of its flagship company Nurol İnşaat ve Ticaret A.Ş which was incorporated in 1966 as a contracting company. As of December 31, 2020, the consolidated asset size of Nurol Holding was approximately TRY29,264mn and the turnover amounted to TRY8,499mn. As of FYE2019, Construction and real estate sector, which has the largest share with 49% in turnover, is followed by manufacturing industry with 35%.

The following table shows Nurol Holding A.Ş.'s engaged sectors as of December 31,2020.

Nurol Holding A.Ş.'s Engaged Sectors
Construction and Contracting
Nurol İnşaat ve Tic. A.Ş.
Nurol Gayrimenkul Yatırım Ort. A.Ş.
Otoyol Yatırım ve İşletme A.Ş.
Nurol LLC
Nurol Georgia LLC
Defense and Production
Nurol Makina ve Sanayi A.Ş.
Nurol Teknoloji San. ve Mad. Tic. A.Ş.
FNSS Savunma Sistemleri A.Ş.
BNA Nurol BAE Systems
Financial Services
Nurol Yatırım Bankası A.Ş.
Nurol Sigorta Aracılık Hizmetleri A.Ş.
Commercial and Services
Nurol Havacılık A.Ş
Botim İşletme Yönetim ve Tic. A.Ş.
Nurol İşletme ve Gayrimenkul Yönetim A.Ş.
Energy and Mining Sector
TÜMAD Madencilik San. ve Tic. A.Ş.
Nurol Enerji Üretim ve Pazarlama A.Ş.
Nurol Göksu Elektrik Üretim A.Ş.
Enova Enerji Üretim A.Ş.
Tourism
Turser Turizm Serv. ve Tic. A.Ş.
Bosfor Turizm İşletmecilik A.Ş.

The following table shows the current shareholder structure of Nurol Holding A.Ş.

Shareholders Structure	As of FYE2020	Share
Nurettin Çarmıklı	258,454,622	33.3060%
Erol Çarmıklı	258,454,621	33.3060%
Mehmet Oğuz Çarmıklı	258,454,621	33.3060%
Eyüp Sabri Çarmıklı	93,030	0.0120%
Gaye Çarmıklı	93,030	0.0120%
Gürol Çarmıklı	62,010	0.0080%
Gürhan Çarmıklı	62,010	0.0080%
Gözde Çarmıklı	62,010	0.0080%
Eda Çarmıklı Yolcu	62,010	0.0080%
S. Ceyda Çarmıklı	62,010	0.0080%
Oğuzhan Çarmıklı	62,010	0.0080%
Aynur Türkan Çarmıklı	38,670	0.0050%
Müjgan Sevgi Kayaalp	22,388	0.0029%
Melih Kayaalp	8,141	0.0011%
Semih Kayaalp	8,141	0.0011%
Others	676	0.0001%
Paid Capital (000 TRY)	**776,000,000**	**100**

Nurol Varlık Kiralama A.Ş., 100% subsidiary of Nurol Bank, 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 September 20, 2017. Nurol Varlık Kiralama A.Ş.'s paid in capital is amounting to TRY50k as of December 31, 2019.

Balance Sheet (TRY)	FYE2020	FYE2019	FYE2018
Current Assets	151,337,538	153,632,651	174,892,967
Non-Current Assets	-	-	-
Total Assets	**151,337,538**	**153,632,651**	**174,891,967**
Short Term Liabilities	151,286,853	153,582,651	174,841,967
Long Term Liabilities	-	-	-
Equity	50,685	50,000	50,000
Total Liabilities	**151,337,538**	**153,632,651**	**174,891,967**

Income Statement (TRY)	FYE2020	FYE2019	FYE2018
Revenue	18,750,550	33,275,889	20,442,103
Cost of Sales	-18,750,550	-33,275,889	-20,442,103
Gross Profit	-	-	-

d. Corporate Governance

As the Bank is not a publicly traded company, the Capital Market Board's Corporate Governance discipline is not a field that the Bank is required to take into consideration. On the other hand, Regulations on the Principles of Corporate Governance of Banks, corporate governance provisions in Turkish Commercial Code along with Banking Regulation and Supervision Agency's enforcements of strict regulation and supervision on the Turkish Banking Sector and labor force together with its financial figures and long operating track record in the sector have provided the Bank with a corporate organizational structure, a comprehensive internal control, audit and risk management systems.

The Bank's Board of Directors incorporates 9 members all of whom, including the general manager. The Board of the Bank contains the committees of Audit, Corporate Governance, Pricing, Disciplinary and Personnel, Assets and Liabilities, Credit, Information Systems Strategy. The Bank's articles of association, disclosed to the public, involve a detailed declaration of the working principles of its Board. It is concluded that the Board Members have the adequate qualifications and experience to administer their duties and the Board successfully performs its duties of leading, supervising and inspecting.

The Bank's website with a separate investor relations heading has a high compliance level to Corporate Governance practices through providing sufficient information and disclosed documentation regarding transparency such as the annual and interim reports, organizational structure, board members' and audit committee members' CVs, audit reports, rating notes, updated articles of association, general assembly meeting documents, disclosure policy, internal directive, material disclosures, money laundering policy and vision and mission. On the other hand, the shortcomings of the Company's website such as the absence of dividend policy, remuneration policy, corporate governance principles compliance statement and reports restrain the Company's relatively high compliance level to corporate governance principles.

The Bank, within the scope of social responsibility, transfers a part of its profit to "Professional Women Network" which aims to share the knowledge and experience gained by women in business life and to support each other-that benefit the community. The activity is given sufficient space on the Bank's website.

We, as JCR Eurasia Rating, are of the opinion that the senior management of the Company is adequate in terms of education, experience and managerial skills.

5. Turkish Banking Sector

Banking sector of Turkey is the core foundation of the financial system and the main funding source of the economy as the yet developing capital markets lag considerably behind. As such, the stability, resilience and growth prospects of the banking system is instrumental in any projection concerning the macroeconomic outlook of Turkey. As of FYE2020, Turkish Banking Sector operates with 54 banks maintaining 11,189 branches within the country and employs 203,224 people. According to the Banks Association of Turkey 3Q2020 data, top 5 banks account for 60.46% of total assets, 66.26% of deposits and 60.38% of total loans.

Following the onset of the sharp currency depreciation in August 2018 and subsequent interest rate hikes by CBRT, domestic lending had fallen considerably. However, the rates have fallen first incrementally and then sharply by the first and second quarters of 2019, as CBRT initiated a monetary easing accommodated via moderating inflation outlook and stabilized exchange rates. The loan book growth, ceased upon the onset of the aforementioned developments, picked up in particularly since 1Q2019 and despite a pause, remains strong throughout the year-end.

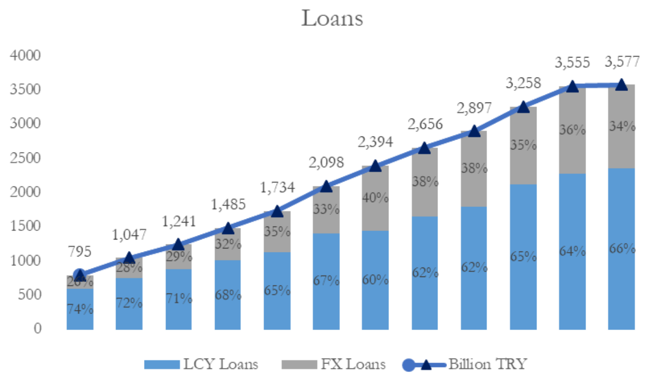
The continuation of financial markets, the healthy functioning of credit channels and the companies' cash flow had paramount importance to limit the negative impacts of Covid-19 pandemic on the Turkish economy. Interest rates have fallen sharply by the first and second quarters of 2020. Although interest rate rose sharply in 4Q2020, interest rates remained low throughout the year which led to loan growth to support consumers' lagged needs and companies' working capital needs.
Additionally, during Covid-19 pandemic, to incentivize banks to extend more loans and use their resources more efficiently, the Banking Regulation and Supervision Authority ("BRSA") has decided to implement a new mechanism on the basis of an "active ratio" equation, as announced in the Decision no. 9000, dated 18 April 2020. Accordingly, Turkish banks were required to calculate their Active Ratio as from 1 May 2020 on a weekly basis. This mechanism continued to be implemented until 31 December 2020. Active ratio is another impact on loan growth in 2020.

Turkish Banking Sector			
Bn TRY	**2018-12**	**2019-12**	**2020-12**
Loans	2,394	2,656	3,577
State Bank's Share in Loans (%)	42	45	48
Non-Performing Loans	97	151	152
Securities	477	660	1,023
Deposit	2,036	2,567	3,455
Shareholders' Equity	422	492	601

Total Asset	3,867	4,491	6,108
Net Income	54	49	60

Source: BRSA

Banking sector loans reached to TRY 3.5 trillion as of FY2020, comparing to TRY 2.6 trillion FY2019. State-owned banks share in total loan portfolio is increasing year by year. There are two state-owned banks in the top 3 banks in the sector—Ziraat Bank and Vakıf Bank. Commercial and corporate loans constituted 53% of total loans while SME loans composed 24% of total loans and consumer loans & credit cards comprised 23% of total loans.



Consumer loans & credit cards increased by 40.79% to TRY 822.71bn, according to BRSA data. Considering the average CPI of 12.28%, the actual growth was also high across the year.

Weighted average funding rate (WAFR) by CBRT realized as 11.49% in January 2020. In July, it declined to its lowest level 7.34% throughout the year. After July, the growth trend has been strong and it reached to 17.03% at the end of the year followed by 19.00% in March 2021.
In fact, there is a strong negative correlation between the WAFR and loan growth, continued until end of 2Q2020. On the other hand, loan demand has increased despite high WAFR due to increasing needs of companies and consumers during Covid-19 pandemic.

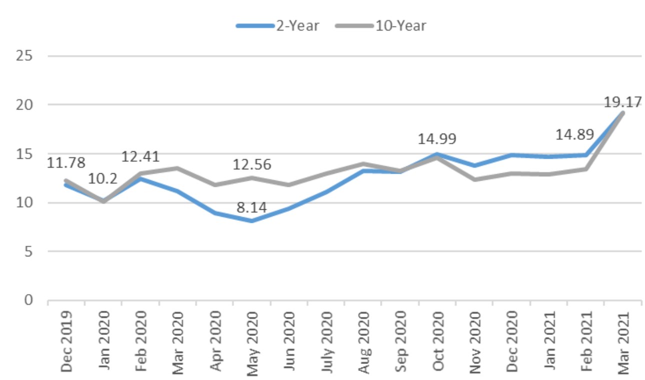
(TRY mn)	% Loans	% NPL	Std. NPL Multiplier
Construction	7.67	9.29	1.21
Electric, Gas and Water	6.80	5.60	0.82
Wholesale Trade and Brokerage	6.66	5.72	0.85
Retail Trade and Personal Products	3.76	4.80	1.27
Survey, Consulting, Advertising	3.48	3.47	0.99
Agriculture	3.46	3.87	1.12
Textile	3.40	4.10	1.20
Metals	3.34	3.14	0.94
Food, Bev. & Tobacco	3.10	3.64	1.17
Tourism	2.81	4.91	1.75
Others	55.52	n.a.	n.a.

Note: % of commercial loans. Std. NPL multiplier measures the ratio of NPL share to loan share for each sector

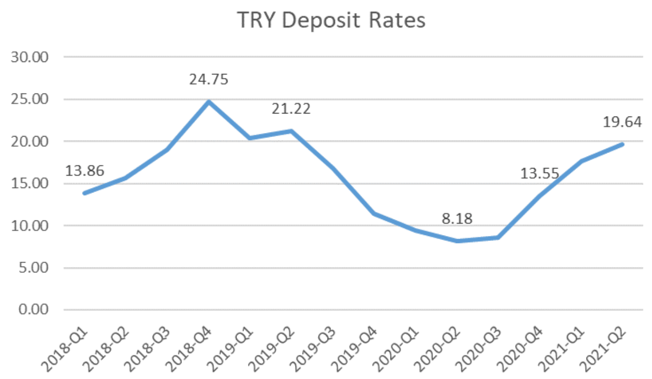
While the loan growth has regained momentum and increasing in both consumer and corporate segments, a key challenge remains in the form of asset quality, and particularly in FX sensitive sectors such as construction and energy. The non-performing loans ratio of the system has steadily increased since August 2018, reaching 5.37% by the end of 2019. Due to loan growth and regulation change (The delinquency period for the classification of loans as non-performing has been extended from 90 days to 180 days), NPL ratio of sector decreased to 4.08% as of FYE2020. Moreover, non-financial companies in the system state their demand for restructuring of existing loans due to constrained domestic conditions. In fact, various large-scale loans including major conglomerates have been completed.

Security portfolio of the banking sector supported the revenues of the banks as the key rates, reaching TRY 1,023bn, or 16.75% of total assets as of FYE2020. Owing to an upward move in both short and long ends of the yield curve, from as high as 19.15% for 2-year bonds to as low as 10.20% as of March 2021.

The portfolio composition reflects the changes in the Treasury's borrowing program, with more FX borrowing undertaken purchased by the Banking Sector. In fact, according to BRSA data, as of December 2020, Eurobond issuances by the Treasury amounted to 21% of total securities portfolio.



Typically, short liability duration of Turkish Banks, with the average maturity of deposits far shorter than 3 months, vis-a-vis long dated loan book, falling interest rates in the first 8 months of 2020, provided uplift to the banks' profitability as the more cheaply repriced deposits resulted in a positive spread, least in the last 4 months of 2020 and 1Q2021, increasing interest rates had adverse effect on spread.



Another key point with regards to the deposits is the increasing FX deposit trend, particularly by the retail residents. Volatilities in the exchange rates led retail depositors to hold FX deposits and golds, a trend sustained despite more stable exchange rates in the recent months. This high FX deposit levels results in a spike in banks' short balance sheet FX position, which is exacerbated by the fact that FX lending to corporations is currently subject to more strict standards and thus limited if not declining. FX loans by banking sector declined from USD 171bn 2019 to USD 164bn 2020. In parallel with 1.4% decrease in the FX deposits of the residents which was USD 221bn as of FYE2019 reached to USD 218bn as of FYE2020.

Turkish banks have established connections to international financing markets, with syndicated loans and securitizations of assets commonplace and important source of funding.

Main Ratios	2020	2019	2018	2017	2016
CAR	18.76	18.40	17.30	16.85	15.57
NPL	4.08	5.36	3.87	2.95	3.24
ROAA	1.41	1.44	1.45	1.62	1.5
ROAE	11.64	11.48	14.83	15.88	14.28
NII/Avg. Assets	4.05	3.85	3.91	3.77	3.65
Loans/Deposits	103.5	109.65	122.58	126.63	123.6

7. Risk Profile & Management

a. Risk Management Organization & Its Function – General Information

Nurol Bank is principally exposed to Credit, Market, Liquidity and Operational risks stemming from the nature of its operations and utilization of financial instruments. Risks are executed under the effective risk management framework and principals in line with regulations and the Bank's risk appetite, strategy, and activities. The Bank's risk management system embraces all processes of decision-making, executing, monitoring, controlling, and auditing activities and includes the bodies of the Board of Directors, Senior Management, Internal Systems Units, and Committees established by the Board of Directors within Risk Management System and Committees established by the Senior Management within the Risk Management System. The Bank has set up Audit Committee, Corporate Governance Committee, Pricing Committee, Disciplinary and Personnel Committee, Assets and Liabilities Committee, Credit Risk Committee, Information Systems Strategy Committee under the BoD.

In order to maintain a thorough and complete risk management system, an Anti-Fraud Monitoring Committee, Sustainability Committee, Internal Control Unit and departments of Risk Management, Internal Audit, Anti- Fraud Monitoring and Compliance were also set up for further surveillance. The Bank's Risk Management Department carries out activities regarding the measurement, monitoring, control and reporting of the risks which are identified in line with relevant implementation principles and risk management policies and procedures approved and periodically reviewed by the Board. Analyses, simulations, scenarios, stress tests and the Internal Capital Adequacy Assessment Process (ICAAP) report, as being part of the risk management, provide a key role in the strategic decisions taken by the senior management of the Bank.

b. Credit Risk

The Bank's credit risk management policy is initially set on three pillars; customer selection, credit allocation and credit pricing. In this sense, through the guides of comprehensive risk management framework, the Bank manages its credit risk by the allocation of loan limits for customers and customer groups as well as the definition of limits for sectors with considerations of maximizing risk-adjusted returns. The Bank continuously monitors customer credit assessments, takes necessary precautions and reviews allocated limits when necessary. In accordance with the lending policies, collaterals such as cash, bank guarantees, pledges, cheques & notes and personal or corporate guarantees are required in line with the financial position of the debtor and its creditworthiness.

On the other hand, 26% (FY2019: 15%), 3% (FY2019: 2%) and 23% (FYE2019: 12%) of the Bank's cash, non-cash loans and borrower funds & funds borrowed directly or indirectly were given to group companies, respectively in FY2020. The share of borrower funds & funds borrowed allocated to the Group Companies demonstrated an increase in FY2020. The share of cash loans increased in absolute term to TRY 840.25mn in FY2020 from 331.46mn FYE2019 and the share of non-cash loans increased to TRY 158.75mn in FY2020 from 110.14mn FYE2019.

The table shows the customer concentration levels in cash and non-cash loan book composition of the Bank in FYE2020-2019.

Customer Concentration (Cash)	2020	2019
First 10	72.17%	61.68%
First 20	90.15%	82.47%
First 50	99.97%	99.96%
Customer Concentration (Non-Cash)	**2020**	**2019**
First 10	64.66%	63.45%
First 20	83.62%	81.72%
First 50	98.46%	97.88%

Nurol Bank's risk profile by sectors is shown below as of FYE2020.

Sectors - FYE2020	Cash Loan	Non-Cash Loan
Banks	0.00%	61.08%
Infrastructure/Contracting	21.82%	6.35%
Non-Bank Financial Institutions	18.83%	22.56%
Tourism	7.89%	0.12%
Real Estate (Investment / Rental Services)	7.82%	0.36%
Automotive (including Op. Fleet Rental)	20.71%	0.37%
Textile (Production-Marketing)	4.93%	0.28%
Energy	7.18%	2.27%
Others	10.83%	6.62%
Total	100%	100%

Nurol Bank has exposure to concentration risk where its business activities focus particularly on a similar type of customers and industrial sectors in Turkey. The Bank's regional concentration in loans book increased to 91.26% in FYE2020 from 80.31% in FYE2019.

The Bank's foreign currency risk exposure complies with BRSA regulations. The Bank's interest rate risk is also limited and risk arising from interest rate fluctuations is monitored on a daily basis and managed by the asset and liability committee.

c. Market Risk

In the scope of market risk, the Bank is principally exposed to the fluctuations in the interest rates and foreign currency risks. Overall authority for market risk is assigned in the Asset- Liability Committee (ALCO). To manage any particular interest rate risk, pre-approved limits of re-pricing bands have been set and interest rate gaps are continuously monitored by ALCO and is assisted by Risk Management Department. The Bank measures the interest rate sensitivity of assets, liabilities and off-balance sheet items in meetings of the Asset-Liability Committee. 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.

Market risk shows the changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments and use the 'Standard Method', in line with the methodology outlined in the regulations of BRSA. The monthly market risk report and the weekly currency risk reports prepared are reported to BRSA.

FYE2020 and FYE2019 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 June 28, 2012.

The BoD of the Bank defines the risk limits for primary risks carried by the Bank and periodically updated the limits. Nurol Bank measures its market risk daily through the value at risk (VaR) methodology, related with trading and available-for-sale portfolios. VAR measurements calculated using internal methods, and exchange rate and overall market risks calculated using standard methods, as well as stress tests and scenarios, are analysed within the scope of the market risk and regularly reported by the Risk Management Department to the Senior Management and Audit Committee.

In the scope of market risk, the Bank is mostly exposed to the fluctuations in interest rates and currency exchanges, although risks arising from those fields are quite restricted under reasonable fluctuations course. The Bank's foreign currency risk exposure is restricted and complies with BRSA regulations. The Bank was short in USD and Euro in denominated liabilities. The Bank's net foreign currency is in short position and the deficit increased to TRY 559.67mn in FY2020 from 124.56mn in FY2019. Net foreign currency position to asset ratio is 12.93% and 3.82% at the end of FYE2020-2019, respectively.

d. Liquidity Risk

Treasury and financial institutions department manages liquidity risk in order to take necessary measures in a timely and accurate manner to meet its obligations even in stressed conditions and accomplishes the regulations regarding liquidity implemented by the BRSA. The Bank calculates and follows up the liquidity risk, cash flows, gap analyses, stress tests and scenario analyses which are periodically reported by the Risk Management Department to the Senior Management and Audit Committee. The Bank uses liquidity gap analyses and liquidity stress tests through executing liquidity risk by internal means. Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

In addition to the requirement of legal liquidity ratios, by the Assets and Liabilities Committee (ALCO) sets internal liquidity ratios such as liquid assets to total assets and liquid assets to portfolio of issued bank bonds. Risk management unit closely monitors the liquidity conditions under the pre-determined limits.
In overcoming the liquidity risk considering short and long-term liquidity requirements, the Bank has been in an effort to develop alternative funding channels and to diversify its funding sources through instruments such as bond issuances, local and foreign borrowings.

The calculation method used to measure the banks compliance with the liquidity limit is set by BRSA. Since November 2006, BRSA issued a new communique on the measurement of liquidity adequacy of the banks.

Due to the COVID-19 pandemic, in order to provide flexibility for banks about meeting the minimum ratios for their liquidity levels, the Banking Regulation and Supervision Authority decided to be reported as of 01/01/2021 based on decision dated 8/12/2020 and numbered 9312. As of December 31, 2019, the average Liquidity Coverage Ratios of Nurol Bank on BRSA Solo basis for the average are 65.87% and 119.71%, for respectively.

The banking sector remains resilient in the face of short-term liquidity shocks. Liquidity coverage ratios (LCRs) that measure capability of high-quality liquid assets on banks' balance sheets to offset net cash outflows over a 30-day period are well above the legal limits of 100 percent and 80 percent for total and FX assets, respectively, which have been implemented since 1 January 2019 and coincide with the Basel III minimums.

NUROL YATIRIM BANKASI A.Ş.		Balance Sheet	
(000, TRY)	2020	2019	2018
Total Earning Assets	3,625,173	2,727,787	2,068,609
Loans and Leasing Receivables	*3,117,579*	*2,167,936*	*1,691,860*
Other Earning Assets	*395,479*	*492,646*	*316,079*
Securities	*112,115*	*67,205*	*60,670*
Non-Earning Assets	700,171	526,163	610,878
Total Assets	4,325,344	3,253,950	2,679,487
Cost Bearing Resources	1,845,091	1,671,445	1,729,416
Borrowing Funding Loans and Other	*1,845,091*	*1,671,445*	*1,729,416*
Non-Cost Bearing Resources	1,861,263	1,146,163	695,360
Total Liabilities	3,706,354	2,817,608	2,424,776
Equity	618,990	436,342	254,711
Total Liabilities and Shareholders' Equity	4,325,344	3,253,950	2,679,487

- According to JCR Eurasia Rating's Adjustments

NUROL YATIRIM BANKASI A.Ş.

Income Statement

(000, TRY)	2020	2019	2018
Net Interest Income	218,554	209,028	174,696
Interest Income	402,863	459,409	379,123
Interest Expense	184,309	250,381	204,427
Net Fee and Commission Income	23,676	48,801	11,207
Fee and Commission Income	*33,197*	*57,527*	*21,952*
Fee and Commission Expense	*9,521*	*8,726*	*10,745*
Total Operating Income	43,006	-61,019	-29,013
Provisions	80,476	41,444	25,379
Total Operating Expense	74,640	68,161	48,076
Profit from Operating Activities Before Tax	130,120	87,205	83,435
Net Profit for the Period	**108,903**	**68,512**	**64,990**

- According to JCR Eurasia Rating's Adjustments

NUROL YATIRIM BANKASI A.Ş.		Financial Ratios	
Profitability &Performance (%)	**FYE2020**	**FYE2019**	**FYE2018**
ROAA - Pretax Profit / Total Assets (avg.)	3.43	2.94	3.82
ROAE - Pretax Profit / Equity (avg.)	24.66	25.24	34.93
Total Income / Equity (avg.)	65.09	78.36	110.01
Total Income / Total Assets (avg.)	9.06	9.13	12.01
Provisions / Total Income	23.43	15.31	9.66
Net Interest Margin	6.9	8.7	9.9
Market Share in Turkish Deposit Banks*	1.14	1.09	1.05
Market Share in Entire Banking System*	0.07	0.07	0.07
Growth Rate	32.93	21.44	58.16
Capital Adequacy (%)			
Equity Generation / Prior Year's Equity	16.90	44.41	5.82
Internal Equity Generation / Previous Year's Equity	24.96	26.90	36.25
Tier 1 / Risk Weighted Asset	14.94	13.76	12.27
Capital / Total Assets	17.47	16.56	13.22
CET 1 Capital Ratio*	13.94	12.73	11.33
Tier I Capital Ratio*	13.94	12.73	11.33
Capital Adequacy Ratio*	17.1	15.64	15.24
Liquidity (%)			
Liquidity Management Success (On Demand)	97.57	99.92	99.27
Liquidity Management Success (Up to 1 Months)	90.95	91.72	93.69
Liquidity Management Success (1 to 3 Months)	91.81	87.13	86.21
Liquidity Management Success (3 to 6 Months)	100.00	99.56	97.58
Liquidity Management Success (6 to 12 Months)	99.36	99.11	95.32
Asset Quality (%)			
Loan and Receivable's Loss Provisions / Total Loans and Receivables	2.27	1.25	0.14
Total Provisions / Profit Before Provision and Tax	38.21	32.21	23.32
Impaired Loans / Gross Loans	2.70	7.36	8.99
Impaired Loans / Equity	13.93	37.04	59.79
NPL	2.7	7.4	8.24
Loss Reserves for Loans / Impaired Loans	84.12	16.97	1.55

- According to JCR Eurasia Rating's Adjustments, * Unconsolidated

Rating Info

Rated Company	**:** Nurol Yatirim Bankasi Anonim Şirketi Büyükdere Cad. Nurol Plaza No:255 K:15, 34485 Şişli/İstanbul TEL: +90 212 286 81 00
Rating Report Preparation Period	: 28/03/2021- 19/04/2021
Rating Publishing Date	**:** 21/04/ 2021
Rating Expiration Date	**:**1 full year after publishing date, unless otherwise stated
Audited Financial Statements	**:** FYE2020-FYE2019-FYE2018 Consolidated and Solo
Previous Rating Results	: 06/04/2020 | Long-Term National Note at AA (Trk)

Disclaimer

The ratings assigned by JCR Eurasia Rating are a reflection of the Company's independent audit reports prepared in conformity with Turkish Financial Reporting Standards (TFRS) and International Financial Reporting Standards (IFRS), on and off-balance sheet figures, general market conditions in its fields of activity, information and clarifications provided by the Company, and non-financial figures. Certain financial figures of the Company for previous year have been revised in the latest financial statements and are evaluated in the rating revision; however, the original figures for the former year are maintained in the rating report for consistency.

The Company's balance sheet composition, asset quality, risk management practices, business profile, liquidity management, history in the sector, profitability figures, revenues, debt structure, growth rates, off-balance sheet commitments, and the financial and non-financial positions of the main shareholders were taken into consideration while determining the risk assessment of the long-term international local currency and foreign currency ratings as well as national ratings.

Considering the fact that there are no additional legal or financial collateral guarantees provided separately for the repayment of the bonds issued, the note assigned for the TRY dominated bond issuance is assigned as the same as the Company's Long and Short Term National Local Ratings, unless otherwise stated.

Previous rating results and other relevant information can be accessed on www.jcrer.com.tr

This rating report has been composed within the methodologies registered with and certified by the SPK (CMB-Capital Markets Board of Turkey), BDDK (BRSA-Banking Regulation and Supervision Agency) and internationally accepted rating principles and guidelines but is not covered by NRSRO regulations.

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