FIRST SUPPLEMENT dated 19 November 2021 to the Base Prospectus dated 15 October 2021

TÜRKİYE GARANTİ BANKASI A.Ş.

US$6,000,000,000
Global Medium Term Note Programme

This supplement (this "*Supplement*") is supplemental to, and must be read in conjunction with, the Base Prospectus dated15 October 2021 (the "*Base Prospectus*," which also serves as the "*Listing Particulars*") prepared by Türkiye Garanti Bankası A.Ş. (the "*Issuer*" or the "*Bank*") under the Issuer's global medium term note programme. Capitalised terms used but not otherwise defined herein shall have the meaning ascribed thereto in the Base Prospectus. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("*Euronext Dublin*") for the approval of this Supplement as a supplement to the Listing Particulars (this "*Listing Particulars Supplement*"). Except where expressly provided or the context otherwise requires, where Notes with a maturity of less than one year are to be admitted to trading on the regulated market of Euronext Dublin, references herein to this "Supplement" shall be construed to be references to this "Listing Particulars Supplement" and references herein to the "Base Prospectus" shall be construed to be references to the "Listing Particulars."

This Supplement has been approved by the Central Bank of Ireland as competent authority under Regulation (EU) No. 2017/1129 (as amended, the "*Prospectus Regulation*"). The Central Bank of Ireland only approves this Supplement as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and such approval should not be considered as an endorsement of the Issuer or the quality of the Notes and investors should make their own assessment as to the suitability of investing in the Notes. This document constitutes a supplement for the purposes of the Prospectus Regulation and has been prepared and published for the purposes of incorporating into the Base Prospectus the Issuer's latest financial statements and updating certain provisions of the Base Prospectus. As a result, modifications to the Base Prospectus are hereby being made.

A copy of each of: (a) the consolidated BRSA Financial Statements of the Group as of and for the nine month period ended 30 September 2021 (including any notes thereto and the independent auditor's review report thereon, the "*Group's New BRSA Financial Statements*") and (b) the unconsolidated BRSA Financial Statements of the Issuer as of and for the nine month period ended 30 September 2021 (including any notes thereto and the independent auditor's review report thereon, the "*Issuer's New BRSA Financial Statements*" and, with the Group's New BRSA Financial Statements, the "*New BRSA Financial Statements*") has been filed with the Central Bank of Ireland and Euronext Dublin and, by means of this Supplement, is incorporated by reference into, and forms part of, the Base Prospectus (and the Group's and the Issuer's BRSA Financial Statements as of and for the six month period ended 30 June 2021, which were incorporated into the Base Prospectus, shall cease to be considered to be incorporated by reference into the Base Prospectus). Copies of the New BRSA Financial Statements can be obtained without charge from the registered office of the Issuer and from the Issuer's website at: (i) with respect to the Group's New BRSA Financial Statements, https://www.garantibbvainvestorrelations.com/en/images/pdf/30_September_2021_Consolidated_Financial_Report.pdf, and (ii) with respect to the Issuer's New BRSA Financial Statements, https://www.garantibbvainvestorrelations.com/en/images/pdf/30_September_2021_Unconsolidated_Financial_Report.pdf (such website does not, and shall not be deemed to, constitute a part of, nor is incorporated into, this Supplement or the Base Prospectus). The New BRSA Financial Statements, which are in English, were prepared as convenience translations of the corresponding Turkish language BRSA Financial Statements (which translations the Issuer confirms are direct and accurate). The New BRSA Financial Statements were not prepared for the purpose of their incorporation by reference into the Base Prospectus.

The New BRSA Financial Statements were reviewed by KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (a member firm of KPMG International Cooperative) ("*KPMG*"). KPMG's review reports included within the New BRSA Financial Statements note that they applied limited procedures in accordance with professional standards for a review of such information and such reports state that they did not audit and they do not express an opinion on the interim financial information in the New BRSA Financial Statements. Accordingly, the degree of reliance upon their reports on such information should be restricted in light of the limited nature of the review procedures applied. The financial information in the New BRSA Financial Statements is subject to any adjustments that might be necessary as a result of the audit process to be undertaken in respect of the full financial year. In addition, KPMG's review reports included within the New BRSA Financial Statements were qualified with respect to certain general reserves that were allocated by the Bank. See "Risk Factors - Risks Relating to the Group and its Business - Other Group-Related Risks - Audit Qualification" in the Base Prospectus as hereby amended.

Statements contained herein (or in the New BRSA Financial Statements incorporated by reference into the Base Prospectus by means of this Supplement) shall, to the extent applicable and whether expressly, by implication or otherwise, modify or supersede statements set out in, or previously incorporated by reference into, the Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of the Base Prospectus. Where there is any inconsistency between the information contained in (or incorporated by reference into) the Base Prospectus and the information contained herein (or incorporated by reference into the Base Prospectus by means of this Supplement), the information contained herein (or incorporated by reference into the Base Prospectus by means of this Supplement) shall prevail.

Other than to the extent described in "Risk Factors - Risks Relating to Turkey" and "Risk Factors - Risks Relating to the Group and its Business" in the Base Prospectus (as supplemented hereby), there has been: (a) no material adverse change in the prospects of the Issuer since 31 December 2020, (b) no significant change in the financial performance of the Group since 30 September 2021 to the date of this Supplement and (c) no significant change in the financial position of the Group since 30 September 2021.

The Issuer accepts responsibility for the information contained in this Supplement or incorporated by reference into the Base Prospectus by means of this Supplement. To the best of the knowledge of the Issuer, the information in (including incorporated by reference into) the Base Prospectus (as supplemented hereby) is in accordance with the facts and makes no omission likely to affect the import of such information.

To the full extent permitted by law, none of the Dealers, the Arrangers, the Agents or any of their respective affiliates accept any responsibility for the information contained in this Supplement or incorporated by reference into the Base Prospectus by means of this Supplement.

AMENDMENTS

The following amendments are made to the Base Prospectus:

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The third sentence of the first paragraph of the section titled "Presentation of Financial and Other Information" on page ix of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> All financial statements incorporated by reference herein, including the Bank's consolidated and unconsolidated annual statutory financial statements as of and for each of the years ended 31 December 2019 (including comparative information for 2018) and 2020 (including comparative information for 2019) (in each case, including any notes thereto and the independent auditor's audit reports thereon) (the "*BRSA Annual Financial Statements*") and the Bank's consolidated and unconsolidated interim statutory financial statements as of and for the nine month period ended 30 September 2021 (including comparative information for the same period of 2020) (including any notes thereto and the independent auditor's review report thereon) (the "*BRSA Interim Financial Statements*"), have been prepared and presented in accordance with the BRSA Principles except for the general reserves (which do not meet the recognition criteria of Turkish Accounting Standards 37 "Provisions, Contingent Liabilities and Contingent Assets") recognised by the Bank.

The sixth paragraph of the section titled "Presentation of Financial and Other Information" on page ix of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> The BRSA Financial Statements are prepared on a historical cost basis except for: (a) financial assets measured at fair value through profit or loss, (b) financial assets measured at fair value through other comprehensive income, (c) derivative financial instruments and (d) real estate, each of which are presented on a fair value basis. It is important to note that the Group's BRSA Financial Statements reflect a full consolidation only of financial subsidiaries whereas other equity participations are recorded on a historical cost basis less impairment (certain information with respect to such investments in subsidiaries and other associates can be found in notes 5.1.10.1 and 5.1.11.1 of the Group's BRSA Interim Financial Statements).

The eighth paragraph of the section titled "Presentation of Financial and Other Information" on page x of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> KPMG's reports included in each of the BRSA Annual Financial Statements and the BRSA Interim Financial Statements were qualified with respect to general reserves that were allocated by the Bank. These additional provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that might arise from any changes in the economy or market conditions. See "Risk Factors – Risks Relating to the Group and its Business – Other Group-Related Risks – Audit Qualification" and KPMG's reports included within such BRSA Financial Statements. Although these provisions did not impact the Group's level of tax, if the Group had not established these provisions, then its net profit/(loss) and/or capital adequacy ratios might have been higher in 2018, 2019, 2020 and the first nine months of 2021. KPMG has qualified its reports in respect of each such period because general reserves are not permitted under the BRSA Principles.

DOCUMENTS INCORPORATED BY REFERENCE

Clauses (a) and (d) of the fourth paragraph of the section titled "Documents Incorporated by Reference" on page xv of the Base Prospectus are hereby deleted in their entirety and replaced by the following, respectively:

> (a) https://www.garantibbvainvestorrelations.com/en/images/pdf/30_September_2021_Unconsolidated_Financial_Report.pdf (with respect to the Bank's BRSA Interim Financial Statements as of and for the nine months ended 30 September 2021),

> (d) https://www.garantibbvainvestorrelations.com/en/images/pdf/30_September_2021_Consolidated_Financial_Report.pdf (with respect to the Group's BRSA Interim Financial Statements as of and for the nine months ended 30 September 2021),

GENERAL DESCRIPTION OF THE PROGRAMME

The second, third, fourth and fifth paragraphs of the section titled "General Description of the Programme - The Group" on page 1 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

The Group is a leading Turkish banking group with a significant market share in Turkey, being (as per published BRSA financial statements as of 30 September 2021) the second largest private banking group in Turkey in terms of total assets. The Group's customers are comprised mainly of commercial enterprises, small and medium enterprises ("*SMEs*"), foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.

The Group served approximately 20.0 million customers as of 30 September 2021 (per the Bank's internal definition: 19.2 million retail customers, 561,920 SME customers, 38,267 commercial customers and 2,852 corporate customers) by offering a broad range of products and services, many of which are tailored to identified customer segments. These products and services include (*inter alia*) deposits, corporate loans, project finance loans, leasing, factoring, foreign exchange transactions, investment and cash management products, consumer loans, mortgages, pension and life insurance, portfolio management, securities brokerage and trading, investment banking, payment systems (including credit and debit cards) and technology and data processing operations. The Group also acts as an agent for the sale of a number of financial products such as securities, insurance and pension contracts and leasing services. As of 30 September 2021, the Bank's services in Turkey were provided through a nationwide network of 866 domestic branches as well as sophisticated digital channels ("*DCs*"), such as automated teller machines ("*ATMs*"), call centres, internet banking and mobile banking. As of the same date, the Bank had eight foreign branches (one in Malta and seven in Northern Cyprus (together with a Country Directorate in Northern Cyprus that was established in order to comply with the legal requirements in Northern Cyprus)) and a representative office in Shanghai, together with bank subsidiaries in the Netherlands (Garanti Bank International NV ("*GBI*")) and Romania (Garanti Bank SA ("*Garanti BBVA Romania*")).

The Group had total assets of TL 630,848,420 thousand, performing loans (which excludes lease, factoring, non-performing receivables and expected credit losses) (as used herein, "*cash loans*") of TL 398,380,974 thousand and shareholders' equity of TL 71,125,116 thousand as of 30 September 2021. The Group's return on average shareholders' equity was 10.8% during 2020 and 17.9% during the first nine months of 2021. As of 30 September 2021, the Group's total capital adequacy ratio was 16.12% (13.58% when calculated using either Tier 1 capital only or common equity Tier 1 capital only) calculated in accordance with applicable Basel III rules.

The Group's net profit/(loss) was TL 6,706,605 thousand in 2018, TL 6,241,390 thousand in 2019 and TL 6,385,163 thousand in 2020 (TL 9,071,591 thousand during the first nine months of 2021).

RISK FACTORS

The eighth sentence of the fourth paragraph of the section titled "Risk Factors - Risks Relating to Turkey - Political Conditions - Political Developments" on page 10 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Central Bank policy rate increased throughout 2020 and into 2021 (topping at 19.00% from March to September 2021) as a result of ongoing higher inflation and increasing inflation expectations; *however*, the rate was unexpectedly reduced by 100 basis points (to 18.00%) in September 2021, at which time the Central Bank also removed its commitment to keep its policy rate above inflation, creating increased uncertainty in the monetary policy framework in Turkey. On 13 October 2021, three members of the Central Bank's monetary policy committee were replaced, and the Central Bank further reduced its policy rate by a larger-than-expected 200 basis points (to 16.00%) on 21 October 2021. On 18 November 2021, the rate was reduced by a further 100 basis points to 15.00%.

The fourth paragraph of the section titled "Risk Factors - Risks Relating to Turkey - Economic Conditions - Turkish Economy" starting on page 15 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

Since February 2001, the Central Bank has applied a floating exchange rate policy. Exchange rates for the Turkish Lira have historically been, and continue to be, highly volatile and recent events have further contributed to significant fluctuations in the value of the Turkish Lira and various governmental policies to respond to currency volatility and the resulting economic conditions. In recent years, there have been a number of periods of sharp depreciation and some recovery in the value of the Turkish Lira (*e.g.*, the Turkish Lira depreciated against the U.S.

dollar by 38.1% in 2018, 12.9% in 2019 and 23.6% in 2020 and 43.96% year-to-date through 18 November 2021, with significant volatility particularly from August through November of 2020 driven in part by changes in Central Bank policy and regulatory changes and significant declines in the value of the Turkish Lira starting in September 2021 with the Central Bank's decision to reduce policy rates). The Central Bank has from time to time used its interest rate policy, reserve requirements and other tools to try to lower inflationary pressures arising from exchange rate volatility, including some fairly large hikes in interest rates in 2018 (which were then followed by large decreases in 2019 and early 2020 as inflation moderated and then, notwithstanding the disinflationary impact of the COVID-19 pandemic-related shutdowns, significant increases starting in August 2020 to address a significant depreciation in the value of the Turkish Lira; *however*, the Central Bank unexpectedly reduced its policy rate by 100 basis points in September 2021 and then, after three members of the Central Bank's monetary policy committee were replaced on 13 October 2021, further reduced the policy rate by a large-than-expected 200 basis points (to 16.00%) on 21 October 2021 and another 100 basis points (to 15.00%) on 18 November 2021). The impact of these circumstances, including changes in the exchange rates of the Turkish Lira, might have a material adverse effect on the Group, including through borrower defaults, increased NPLs, reduced loan volumes and reduced earnings, the revaluation of assets and liabilities (including increases in the Turkish Lira-equivalent value of the Group's obligations in other currencies), a decline in capital and/or rapid changes in the economic and legal environment.

The seventh sentence of the first paragraph of the section titled "Risk Factors - Risks Relating to Turkey - Economic Conditions - Covid-19" on page 17 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Bank has exposure to certain sectors that are impacted the most by the COVID-19 pandemic, such as the Bank's loans to the transportation, retailer, tourism and real estate sectors (which accounted for 9.8%, 5.6%, 3.8% and 3.4%, respectively, of the Bank's gross cash loan portfolio as of 30 September 2021).

The fifth and sixth sentences of the first paragraph of the section titled "Risk Factors - Risks Relating to Turkey - Economic Conditions - Current Account Deficit" on page 18 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

During the first nine months of 2021, reflecting the recovery in global activity, the easing of lockdown measures and significant global policy stimulus, Turkey's current account deficit declined to US$18.5 billion on a 12 months basis as a result of increased exports, a moderation in imports (especially gold) and increased tourism revenues. Various events and circumstances, including (*inter alia*) a decline in Turkey's foreign trade and tourism revenues (including due to a resurgence of COVID-19), political risks, changes to Turkey's macroeconomic policy (such as with respect to domestic interest rates) and an increase in the price of oil, might result in an increase in the current account deficit.

The last sentence of the third paragraph of the section titled "Risk Factors - Risks Relating to Turkey - Economic Conditions - Current Account Deficit" on page 18 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

In addition, starting in August 2020, the Central Bank began to tighten monetary policy by increasing the cost of funding (including via large increases to the benchmark policy rate, including a 475 basis point increase to 15.00% in November 2020, a 200 basis point increase to 17.00% in December 2020 and a further 200 basis point increase to 19.00% in March 2021); *however*, it then made a 100 basis point reduction to 18.00% in September 2021, a further 200 basis point reduction to 16.00% in October 2021 and an additional 100 basis point reduction to 15.00% in November 2021, which might change demand for imports, adversely affect Turkey's economic growth, negatively impact the Turkish Lira's exchange rate and/or result in downward pressure on the Group's net interest margin.

The first paragraph of the section titled "Risk Factors - Risks Relating to Turkey - Economic Conditions - Inflation" on page 19 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Turkish economy has experienced significant inflationary pressures in the past. In 2018, the annual consumer price index ("*CPI*") inflation rate was 20.3%, while annual domestic producer price inflation during the year was 33.6%, both increasing significantly due principally to the depreciation of the Turkish Lira. In 2019, the CPI was 11.8% and domestic producer price inflation was 7.4%. In 2020, CPI was 14.6%, reflecting primarily an increase in food, energy and commodity prices (including due to the depreciation of the Turkish Lira). On 29 April 2021, the Central Bank published its second inflation report of 2021, indicating an inflation forecast for 2021 and

2022 of 12.2% and 7.5%, respectively, which was then further revised on 30 July 2021 to 14.1% for 2021 and 7.8% for 2022 and then revised again on 28 October 2021 to 18.4% for 2021 and 11.8% for 2022 (and 7.0% for 2023). As of October 2021, the last 12 month CPI inflation was 19.89% and the last 12 month domestic producer price inflation was 46.31%. Inflation might continue at an elevated, or even higher, pace due to anticipated higher food inflation (in part due to droughts, wildfires, logistics obstacles and other supply side challenges), cost push factors (where sellers pass along increasing costs to their customers), global supply-chain disruptions, worsening inflation expectations, the depreciation of the Turkish Lira and pent-up demand following the reopening in the economy post COVID-19 restrictions.

The fourth paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Counterparty Credit Risk" starting on page 22 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group's financial results can be significantly affected by the amount of provisions for expected credit losses. Determining the amount of such provisions involves the use of numerous estimates and assumptions. As a result, the level of provisions and other reserves that the Group has set aside might prove insufficient and the Group might be required to create significant additional provisions and other reserves in future periods. Primarily due to an increase in NPLs as a consequence of the depreciation of the Turkish Lira and the contraction in the growth of the Turkish economy, the Group's NPL ratio increased from 5.2% as of 31 December 2018 to 6.8% as of 31 December 2019 but then, due in part to the BRSA's temporary loan classification changes during the COVID-19 pandemic discussed below and TL 4.7 billion in write-downs, declined to 4.5% as of 31 December 2020 (with the write-downs accounting for 1.3% of the decline). The NPL ratio then further declined to 3.8% as of 30 September 2021 due both to such temporary measure and TL 1.2 billion in write-downs (the total impact of the write-downs in 2020 and the first three quarters of 2021 was to reduce the NPL ratio by 1.4%). The Stage 2 loans as a percentage of performing loans decreased from 15.4% as of 31 December 2018 to 14.4% as of 31 December 2019 and then increased to 17.2% as of 31 December 2020 before declining again to 15.2% as of 30 September 2021 (the Stage 2 loans as a percentage of total loans changed from 14.6% to 13.4% to 16.4% to 14.6% during the same period). It should be noted that, as a result of March 2020 decisions by the BRSA relating to the government's response to the COVID-19 pandemic, the length of the period of non-payment before a loan or other receivable is considered to be non-performing was temporarily extended through 30 June 2021 and then further extended through 30 September 2021 (thereafter, this forbearance still applies to loans that were overdue for more than 31 days but less than 90 days as of 1 October 2021), which thus results in some loans and other receivables with an overdue amount between 90 and 180 days to be classified as performing (*i.e.*, Stage 2 loans) during this period when they might have been classified as NPLs absent these temporary actions (as of 30 September 2021, there were TL 1.7 billion of such loans). This change temporarily reduces recognition of NPLs and, as a result, the Group's reported NPLs during the relevant period might not be indicative of the Group's asset quality compared to prior periods; *however*, the Group has continued to set aside provisions for these loans as if they were NPLs (35% coverage ratio as of 30 September 2021 as opposed to the 17% average coverage ratio for traditional Stage 2 loans as of such date). See "Turkish Regulatory Environment - Expected Credit Losses."

The second paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Loan Concentrations" on page 23 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

With respect to loans to corporate borrowers, concentrations by industry (*e.g.*, agriculture) or product type (*e.g.*, project financings) exist from time to time, including (particularly for project or acquisition financings) potentially large individual exposures. In terms of industry concentration, the transportation, retailer, tourism and real estate sectors accounted for 9.8%, 5.6%, 3.8% and 3.4%, respectively, of the Bank's gross loan portfolio as of 30 September 2021 (9.9%, 6.1%, 4.2% and 3.5%, respectively, as of 31 December 2020, 9.7%, 6.0%, 3.8% and 3.1%, respectively, as of 31 December 2019 and 9.0%, 6.9%, 3.3% and 2.7%, respectively, as of 31 December 2018).

The first sentence of the third paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Loan Concentrations" on page 23 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

As of 30 September 2021, 10.9% and 22.6% of the Group's performing cash loans excluding financial leases and factoring receivables were credit card and consumer loans, respectively, which historically have had among the highest rate of payment default and are uncollateralised.

The fifth and sixth paragraphs of the section titled “Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Loan Concentrations” on page 24 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

> The Group periodically sells portions of its NPL portfolio when market conditions were attractive to do so. In 2018, NPLs amounting to TL 353,750 thousand were sold for a consideration of TL 30,734 thousand, whereas in 2019 NPLs amounting to TL 1,026,813 thousand were sold for a consideration of TL 70,566 thousand and in 2020 NPLs amounting to TL 147,010 thousand were sold for a consideration of TL 54,892 thousand. In the first nine months of 2021, NPLs amounting to TL 140,915 thousand were sold for a consideration of TL 179,735 thousand. The effect of NPL sales on the NPL ratio was to reduce it by 0.13% as of 31 December 2018, 0.33% as of 31 December 2019, 0.04% as of 31 December 2020 and 0.03% as of 30 September 2021 (*i.e.*, the NPL ratio for such dates would have been higher by such amounts had such sales not occurred). Write-downs and write offs have a similar effect, and the Group had TL 4.7 billion and TL 1.2 billion of write-downs in 2020 and the first nine months of 2021, respectively, accounting for a 1.3% and 0.3% decline in the NPL ratio, respectively.
>
> On a Bank-only basis, SMEs (per the BRSA SME Definition) accounted for 19.7% of total NPLs as of 30 September 2021 (30.0% as of 31 December 2018, 21.7% as of 31 December 2019 and 21.8% as of 31 December 2020).

The second sentence of the first paragraph of the section titled “Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Government Default” on page 24 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> As of 30 September 2021, 89.5% of the Group’s total securities portfolio (12.8% of its total assets and equal to 113.5% of its shareholders’ equity) was invested in Turkish government debt securities (91.5%, 13.7% and 118.4%, respectively, as of 31 December 2020, 92.1%, 13.4%, and 106.2%, respectively, as of 31 December 2019 and 91.1%, 13.1% and 111.7%, respectively, as of 31 December 2018).

The fifth sentence of the first paragraph of the section titled “Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Foreign Exchange and Currency Risk” on page 25 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> As a reference, the Turkish Lira depreciated against the U.S. dollar by 38.1% in 2018, 12.9% in 2019, 23.6% in 2020 and 43.96% year-to-date through 18 November 2021.

The fourth and fifth paragraphs of the section titled “Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Foreign Exchange and Currency Risk” on page 26 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

> The share of Turkish Lira-denominated assets and liabilities in the Group’s balance sheet changed from 51.6% and 38.0%, respectively, as of 31 December 2018 to 53.8% and 39.1%, respectively, as of 31 December 2019, largely due to: (a) with respect to assets, a declining demand for foreign currency-denominated loans due to the depreciation of the Turkish Lira, and (b) with respect to liabilities, redemptions of the Group’s foreign currency-denominated wholesale funding. With respect to foreign currency-denominated loans (assets) held by the Group, there was a decline of 5.9% (calculated in U.S. dollar terms) during 2019, principally due to significant redemptions during the third quarter of 2019 and decreased demand for new foreign currency-denominated loans. As of 31 December 2020, the balance was relatively steady from the end of the previous year, with Turkish Lira-denominated assets making up 54.1% of the Group’s balance sheet and liabilities accounting for 38.8%. As of 30 September 2021, the proportions changed to 56.7% and 39.3%, respectively. While the share of liabilities denominated in Turkish Lira remained relatively stable during 2020 and the first nine months of 2021, the increases in the share of Turkish Lira-denominated assets during such periods continued to reflect foreign currency loan repayments exceeding new foreign currency loan demand (in U.S. dollar terms, there was a decline in foreign currency-denominated loans of 0.6% in 2020 and 4.6% during the first nine months of 2021).
>
> From a systemic perspective, if the Turkish Lira were to depreciate materially against the U.S. dollar or the euro (which represent a significant portion of the foreign currency debt of the Group’s corporate and commercial customers), then it would be more difficult for the Group’s customers with income primarily or entirely denominated in Turkish Lira to repay their foreign currency-denominated debt (including to the Group) and reduced repayment capacity of such customers might have a material negative impact on the Group’s financial condition (including its capitalisation). A number of Turkish borrowers have significant amounts of debt

denominated in foreign currency and thus are susceptible to this risk and certain foreign currency-denominated loans in the Turkish market have been (or are in the process of being) restructured. As of 30 September 2021, 37.9% of the Group's total loans to customers was denominated in foreign currencies (43.1%, 40.9% and 39.3%, respectively, as of 31 December 2018, 2019 and 2020), 16.9% being in U.S. dollars and 18.0% being in euro.

The first paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Interest Rate Risk" on page 26 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group's results of operations depend significantly upon the level of its net interest income, which is the difference between interest income from interest-earning assets and interest expense on interest-bearing liabilities. Net interest income is the principal source of income for the Group, contributing 73.6%, 67.1%, 64.7% and 66.7% of the Group's total operating income before provisions for 2018, 2019 and 2020 and the first nine months of 2021, respectively, and the Group's net interest margin was 6.0%, 5.9%, 6.1% and 6.2%, respectively, over the same periods (6.7%, 6.2%, 6.6% and 6.8%, respectively, for the Bank).

The first sentence of the first paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Reductions in Earnings on Investment Portfolio" on page 27 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group has historically generated a portion of its interest income from its securities portfolio, with interest income derived from the Group's securities portfolio in 2018, 2019, 2020 and the first nine months of 2021 accounting for 20.0%, 13.5%, 16.6% and 16.3%, respectively, of its total interest income and 16.3%, 10.4%, 11.9% and 12.2%, respectively, of its gross operating income before deducting interest expense and fees and commissions expense.

The second sentence of the third paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Funding Risks - Liquidity Risks" starting on page 27 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group's loan-to-deposit ratio was 103.1%, 96.2%, 96.2% and 95.9%, respectively, as of 31 December 2018, 2019 and 2020 and 30 September 2021.

The fifth sentence of the fourth paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Funding Risks - Liquidity Risks" on page 28 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Group's non-deposit funding was equivalent to 19.8%, 15.8%, 13.9% and 12.7%, respectively, of its assets as of 31 December 2018, 2019 and 2020 and 30 September 2021.

The fifth paragraph of the section titled "Risk Factors - Risks Relating to the Group and its Business - Funding Risks - Liquidity Risks" on page 28 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

As noted above, a portion of the Group's wholesale fundraising is denominated in foreign currencies. The Group's total foreign currency-denominated borrowings (*i.e.*, the sum of foreign currency-denominated funds borrowed, financial liabilities measured at fair value through profit or loss, money market funds, marketable securities issued and subordinated debt) equalled 18.2%, 13.6%, 12.0% and 11.1%, respectively, of its assets as of 31 December 2018, 2019 and 2020 and 30 September 2021. While the Group has been successful in extending, at a relatively low cost, the maturity profile of its funding base, even during times of volatility in international markets, this might not continue in the future (including if investor confidence in Turkey decreases as a result of political, economic or other factors). As of 30 September 2021, the Group had free foreign currency liquidity amounting to US$12.0 billion while having US$2.7 billion in foreign currency-denominated external debt to be paid within one year (an additional US$4.4 billion in such debt matures in later periods). Particularly in light of the historical volatility of emerging market financings, the Group might have difficulty extending and/or refinancing its existing foreign currency-denominated indebtedness, hindering its ability to avoid the interest rate risk inherent in asset-liability maturity gaps. Should these risks materialise, these circumstances might have a material adverse effect on the Group's business, financial condition and/or results of operations. These risks might increase as the Group seeks to increase medium- and long-term lending to its customers, including mortgages and project financings, the funding for much of which is likely to be made through borrowings in foreign currency (including refinancing of its foreign currency borrowings).

The following is hereby added as a new paragraph at the end of the section titled "Risk Factors - Risks Relating to the Group and its Business - Operational Risks - Money Laundering and Terrorist Financing" starting on page 31 of the Base Prospectus:

> In October 2014, the Organisation for Economic Co-operation and Development (the "*OECD*") Working Group on Bribery adopted the Phase 3 Report on Implementing the OECD Anti-Bribery Convention. In this report, the OECD Working Group expressed concerns about Turkey's low level of anti-bribery enforcement and recommended that Turkey improve its efforts to proactively detect, investigate and prosecute allegations of foreign bribery. The OECD Working Group also expressed concern regarding certain deficiencies in Turkey's corporate liability legislation and enforcement against legal persons and made several recommendations to address these concerns. In addition, on 21 October 2021, the Financial Action Task Force (the "*FATF*") placed Turkey on the so-called "grey list" of countries in need of elevated supervision of its legal framework for combatting terrorism and money laundering. The FATF cited concerns about inadequate supervision of Turkey's banking and real estate sectors and dealers in gold and precious stones, including having undertaken insufficient prosecutorial efforts against violators (including freezing of assets). These concerns might negatively impact investors' willingness to invest in Turkey and/or engage with Turkish banks and changes in Turkish laws and practices might arise from these recommendations, both of which might have a material effect on the Group's business, financial condition and/or results of operations.

The second paragraph of the risk factor titled "Risks Relating to the Group and its Business – Other Group-Related Risks – Audit Qualification" on page 32 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

> In 2018, the Bank's management increased the general reserves by TL 1,090,000 thousand to TL 2,250,000 thousand, increasing them again by TL 250,000 thousand in 2019 (to TL 2,500,000 thousand), by TL 2,150,000 thousand in 2020 (to TL 4,650,000 thousand) and by TL 1,950,000 thousand in the first nine months of 2021 (to TL 6,600,000 thousand), in each case due to the possible effects of negative circumstances that might arise in the economy or in market conditions.

SUMMARY FINANCIAL AND OTHER INFORMATION

The section titled "Summary Financial and Other Information" starting on page 51 of the Base Prospectus is hereby deleted in its entirety and replaced by the section set out on Exhibit A.

CAPITALISATION OF THE GROUP

The section titled "Capitalisation of the Group" on page 53 of the Base Prospectus is hereby deleted in its entirety and replaced by the section set out on Exhibit B.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page 54 of the Base Prospectus is hereby deleted in its entirety and replaced by the section set out on Exhibit C.

THE GROUP AND ITS BUSINESS

The second, third, fourth and fifth paragraphs of the section titled "The Group and its Business - Overview of the Group" on page 121 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

> The Group is a leading Turkish banking group with a significant market share in Turkey, being (as per published BRSA financial statements as of 30 September 2021) the second largest private banking group in Turkey in terms of total assets. The Group's customers are comprised mainly of commercial enterprises, SMEs, foreign multinational corporations with operations in Turkey and customers from across the Turkish consumer market.
>
> The Group served approximately 20.0 million customers as of 30 September 2021 (per the Bank's internal definition: 19.2 million retail customers, 561,920 SME customers, 38,267 commercial customers and 2,852 corporate customers) by offering a broad range of products and services, many of which are tailored to identified customer segments. These products and services include (*inter alia*) deposits, corporate loans, project finance loans, leasing, factoring, foreign exchange transactions, investment and cash management products, consumer

loans, mortgages, pension and life insurance, portfolio management, securities brokerage and trading, investment banking, payment systems (including credit and debit cards) and technology and data processing operations. The Group also acts as an agent for the sale of a number of financial products such as securities, insurance and pension contracts and leasing services. As of 30 September 2021, the Bank's services in Turkey were provided through a nationwide network of 866 domestic branches as well as sophisticated DCs, such as ATMs, call centres, internet banking and mobile banking. As of the same date, the Bank had eight foreign branches (one in Malta and seven in Northern Cyprus (together with a Country Directorate in Northern Cyprus that was established in order to comply with the legal requirements in Northern Cyprus)) and a representative office in Shanghai, together with bank subsidiaries in the Netherlands (GBI) and Romania (Garanti BBVA Romiani).

The Group had total assets of TL 630,848,420 thousand, cash loans of TL 398,380,974 thousand and shareholders' equity of TL 71,125,116 thousand as of 30 September 2021. The Group's return on average shareholders' equity was 10.8% during 2020 and 17.9% during the first nine months of 2021. As of 30 September 2021, the Group's total capital adequacy ratio was 16.12% (13.58% when calculated using either Tier 1 capital only or common equity Tier 1 capital only) calculated in accordance with applicable Basel III rules.

The Group's net profit/(loss) was TL 6,706,605 thousand in 2018, TL 6,241,390 thousand in 2019 and TL 6,385,163 thousand in 2020 (TL 9,071,591 thousand during the first nine months of 2021).

The first three paragraphs of the section titled "The Group and its Business - Overview of the Group - Business - Retail Banking - Products and Services" starting on page 124 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

Deposits. The Bank offers its retail customers a range of interest- and non-interest-bearing current and savings accounts, gold deposit accounts, structured deposits (*i.e.*, deposits linked to an index), flexible term deposits and accumulated savings accounts. Deposit collection is a principal focus of the Bank as deposits provide low cost funds to be invested in loans and other assets. The Bank has been increasing its domestic branch network for many years (from 478 at the end of 2006 to 866 as of 30 September 2021) with the goal of increasing the number of the Bank's retail customers and obtaining a stronger and more diversified deposit base. Deposits from the retail banking business are the largest funding source of the Bank, reaching TL 95.6 billion of Turkish Lira deposits and US$12.8 billion of foreign currency deposits as of 30 September 2021.

Consumer Loans (including Overdraft Accounts). The Bank's retail loan portfolio, originated only in Turkish Lira since 2009, comprised of mortgage loans, auto loans, general purpose loans and overdrafts but excluding credit cards, decreased by 1.2% in 2018 to TL 47.6 billion, increased by 8.2% in 2019, further increasing by 27.2% in 2020 and then increasing by 25.1% in the first nine months of 2021. The Bank's primary consumer loan products are described below:

- *Mortgages*: In 2019, the retail mortgage loan book decreased by 9.4% and then increased by 9.2% in 2020, followed by 14.89% in the first nine months of 2021. The Bank's retail mortgage offering is focused on both high and medium net worth individuals with strong credit history. Although the Bank's maximum loan-to-value ratio is 80%, which is in line with the maximum limit stated by law, the average loan-to-value ratio of the Bank's retail mortgage book at origination was 64% as of 30 September 2021. The average original term of its mortgages on such date was 8.4 years, with most loans having an original maturity of either 5 or 10 years, and mortgages are issued with fixed interest rates. The Bank had a market share of 9.21% (with respect to outstanding mortgage loan balance for consumer loans) as of 30 September 2021 according to BRSA data. The Bank maintains strategic partnerships with leading residential construction companies and real estate agencies nationally, and also focuses on mortgage expertise in branches as well as a wide product range and distribution channels, focusing on service quality instead of price competition in order to maintain its profitability. While foreign currency-denominated mortgages were common in previous years, legislation now requires that consumer mortgages to Turkish citizens can only be denominated in Turkish Lira.

- *Vehicle Loans*: The Bank offers secured loans to finance the purchase of both new and used vehicles. The duration of these loans is around four years and most have fixed rates. In 2019, the Bank's vehicle loan book decreased by 21.2%, but then increased by 14.5% in 2020, followed by an increase of 31.8% during the first nine months in 2021. The Bank's market share (by outstanding balance) was 13.09% as of 30 September 2021 according to BRSA data.

- *General Purpose Loans (including other and overdraft loans)*: The Bank offers general purpose loans to finance various needs of its retail customers, such as home improvement, education, marriage and vacations. The average maturity of such loans is approximately three years. The Bank's general purpose loan book increased by 27.2% in 2019, increased by a further 39.8% in 2020 and then further increased by 29.9% during the first nine months of 2021. The Bank's market share (including overdraft, by outstanding balance) was 12.4% as of 30 September 2021 according to BRSA data. The Bank seeks to capture market share through various central marketing approaches, including loyalty-based approaches such as pre-approved loan limits. As general purpose loans are generally unsecured, the Bank's credit analysis for these loans focuses principally on the potential borrower's income and other assets.

- *Overdraft Accounts*: The Bank has registered a stable and strong overdraft account base built upon mainly employer payroll customers and investment accounts. Targeted marketing campaigns are conducted to increase utilisation of overdraft accounts. As of 30 September 2021, the number of overdraft accounts operated by the Group was approximately 3.7 million, with an aggregate overdraft risk of TL 3,558 million.

Investment Products. The Bank's retail banking investment products include mutual funds, government bonds and equity securities. As of 30 September 2021, the Bank had TL 20.2 billion of assets under management in investment products. The Bank's principal strategies to increase its retail investment product sales, customers using digital channels and profitability include conducting cross-selling campaigns to deposit customers and utilising actively managed mutual funds (*e.g.*, a fund with a diversified multi-asset strategy that invests not only in Turkish equity and fixed income markets but also in the equity and fixed income markets in Europe, the United States and emerging markets and in precious metals and ETFs).

The paragraphs in the section titled "The Group and its Business - Overview of the Group - Subsidiaries" starting on page 130 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

In addition to its core banking operations, the Group is active in the areas of leasing, factoring, investment banking, portfolio management, private pensions and life insurance brokerage in Turkey, each of which is largely operated through a subsidiary of the Bank. In addition, the Bank has wholly-owned banking subsidiaries in the Netherlands (GBI, which has offices in Amsterdam and Germany) and Romania (Garanti BBVA Romania).

The following tables reflect the contribution of the Bank and certain of its consolidated subsidiaries to the Group's profit/(loss) and assets as of the indicated dates; *however*, this information is provided on a "non-consolidating" basis (*i.e.*, without making adjustments for intra-Group transactions):

		As of 31 December			As of
Assets	**Ownership**(1)	**2018**	**2019**	**2020**	**30 September 2021**
Türkiye Garanti Bankası	N/A	81.9%	82.8%	83.0%	83.2%
GBI	100%	5.9%	5.1%	5.2%	5.4%
GHBV and Romania businesses(3)	100%	3.4%	3.6%	3.7%	3.7%
Garanti Leasing	100%	1.4%	1.0%	1.0%	1.0%
Garanti Factoring	81.84%	0.6%	0.5%	0.5%	0.6%
Garanti BBVA Pension and Life	84.91%	0.3%	0.5%	0.5%	0.4%
Garanti Securities	100%	0.1%	0.2%	0.3%	0.3%
Garanti Asset Management	100%	0.0%	0.0%	0.0%	0.0%
Structured Entities(2)					
Garanti Diversified Payment Rights Finance Company	0%	4.6%	4.5%	3.9%	3.6%
RPV Company	0%	1.8%	1.8%	1.9%	1.8%

Net Profit/(Loss)[4]	Ownership[1]	2018	2019	2020	For the nine months ended 30 September 2021
Türkiye Garanti Bankası	N/A	89.2%	87.5%	83.1%	83.2%
Garanti BBVA Pension and Life	84.91%	6.1%	6.5%	6.2%	4.2%
GHBV and Romania businesses[3]	100%	2.0%	2.3%	1.8%	2.3%
GBI	100%	0.9%	0.6%	0.7%	1.4%
Garanti Securities	100%	0.8%	2.1%	6.5%	3.6%
Garanti Factoring	81.84%	(0.4)%	0.3%	0.7%	0.9%
Garanti Leasing	100%	1.2%	1.4%	1.9%	1.4%
Garanti Asset Management	100%	0.4%	0.5%	0.9%	0.5%
Structured Entities[2]					
Garanti Diversified Payment Rights Finance Company	0%	(0.2)%	(1.1)%	(1.8)%	2.4%
RPV Company	0%	0.0%	(0.1)%	0.0%	0.1%

(1) Ownership refers to the Bank's direct and indirect ownership in the relevant subsidiary.
(2) Garanti Diversified Payment Rights Finance Company and RPV Company are structured entities established for the Bank's fund-raising transactions and are consolidated in the accompanying consolidated financial statements. Neither the Bank nor any its subsidiaries has any shareholding interests in these companies. These companies have assets and liabilities in their own financial statements resulting from the fund-raising processes, many of which are eliminated during the consolidation processes.
(3) Includes 100% ownership in GHBV and in the following Romanian businesses: Garanti BBVA Romania, Motoractive and Ralfi through G Netherlands.
(4) As fees and commissions paid by one Group member to another increase the recipient's income and the payer's expenses, these percentages do not necessarily reflect fully the benefits that the Bank's subsidiaries provide to the Group.

The following provides brief summaries of each of the Bank's material subsidiaries other than Garanti BBVA Bilişim Teknolojisi ve Ticaret T.A.Ş. ("*Garanti BBVA Technology*"), which is described in "Information Technology" below. As Garanti BBVA Technology is not a financial subsidiary, it is accounted for at cost in the Group's financial statements.

Garanti Bank International

Established in 1990, GBI is a mid-sized European bank established in Amsterdam, the Netherlands and serves a retail, corporate and institutional clientele. GBI offers financial solutions to its customers and counterparties in the areas of trade and commodity finance, cash management, private banking, treasury and structured finance, while maintaining multi-product relationships with local and global financial institutions around the world. GBI also provides targeted retail banking services in the Netherlands and Germany.

GBI is a wholly-owned subsidiary of the Bank and has a presence in Germany, Switzerland and Turkey. GBI operates under Dutch and European Union laws, and is under the supervision of the ECB, De Nederlandsche Bank (DNB) and De Autoriteit Financiële Markten (AFM).

GBI generated a net profit/(loss) of €14.0 million in 2018, €6.5 million in 2019, €6.8 million in 2020 and €15.6 million during the first nine months of 2021. GBI's total assets amounted to €4,291 million as of 31 December 2018, €3,617 million as of 31 December 2019, €3,430 million as of 31 December 2020 and €3,638 million as of 30 September 2021.

Garanti BBVA Pension and Life

Garanti BBVA Emeklilik ve Hayat A.Ş. ("*Garanti BBVA Pension and Life*"), founded in 1992 in İstanbul, offers life insurance policies and private pensions. The company utilises its expertise in bancassurance (*i.e.*, the relationship between an insurer and a bank pursuant to which the insurer uses the bank's sales channels in order to sell the insurer's insurance and pension products) to offer its insurance and pension products to the Bank's customers. Garanti BBVA Pension and Life, with 1,126 participants, had a market share of 16.1% in the pension business as of 30 September 2021 according to the Pension Monitoring Centre (*Emeklilik Gözetim Merkezi*).

Garanti BBVA Pension and Life managed a portfolio of TL 25,285 billion as of 30 September 2021 and held a 14.3% market share in pension fund assets under management as of such date according to the Pension Monitoring Centre. An auto-enrollment system was introduced in December 2016 for public and private sector employees, with staged adoption starting in January 2017. Garanti BBVA Pension and Life, with 1,037 participants among private companies, was first in the market regarding pension fund management as of 30 September 2021 according to the Pension Monitoring Centre.

In the life insurance business, as of 30 September 2021 the company serviced 2.5 million insurance policyholders. Garanti BBVA Pension and Life's direct premium production increased by 33% in 2020 (to TL 1,111.8 million), following a 73% increase in 2019 (to TL 837.5 million from TL 483.7 million in 2018), whereas in the first nine months of 2021 there was TL 1,045.8 million in direct premium. The company had a market share of 8.5% as of 30 September 2021 as published by the Insurance Association of Turkey (*Türkiye Sigorta Birliği*). Garanti BBVA Pension was the second most profitable private company in the sector during 2020 according to the Insurance Association of Turkey.

Since 2007, Garanti BBVA Pension and Life has also been marketing, promoting and selling certain general insurance products of its previously affiliated entity Eureko Sigorta A.Ş. pursuant to a general insurance agency agreement. These products are sold to bancassurance customers through the Group's distribution network.

Garanti BBVA Pension and Life had net profit/(loss) of TL 454,189 thousand in 2018, TL 454,295 thousand in 2019, TL 463,150 thousand in 2020 and TL 461,122 thousand during the first nine months of 2021.

Garanti Leasing

In 1990, the Bank established a leasing company, Garanti Finansal Kiralama A.Ş. ("*Garanti Leasing*"). In 2020, Garanti Leasing executed 1,013 new financial leasing deals (principally for the leases of business and construction machines) and recorded a total of US$291 million in new leases, as compared to 703 new financial deals (US$211 million in new leases) and 1,785 new financial leasing deals (US$493 million in new leases) in 2018. During the first nine months of 2021, Garanti Leasing executed 942 new financial leasing deals (principally for the leases of business and construction machines) and recorded a total of US$292 million in new leases. As of September 2021, the company had a market share of 10.25% for new contracts and a 11.89% market share in terms of transaction volume, each according to the Turkish Financial Institutions Association (*Finansal Kurumlar Birliği*). Garanti Leasing's total assets were TL 6,070,504 thousand as of 31 December 2018, TL 4,948,377 thousand as of 31 December 2019, TL 5,846,989 thousand as of 31 December 2020 and TL 7,047,033 thousand as of 30 September 2021.

Garanti Leasing had a net profit/(loss) of TL 80,616 thousand in 2018, TL 100,436 thousand in 2019, TL 146,351 thousand in the 2020 and TL 153,751 thousand in the first nine months of 2021.

Garanti Leasing has a 100% interest in both Garanti Filo Yönetim Hizmetleri A.Ş. ("*Garanti BBVA Fleet*"), which provides a car leasing service to individuals and businesses that require long-term vehicles, and Garanti Filo Sigorta Aracılık Hizmetleri A.Ş., which provides insurance for such vehicles.

Garanti Holding and Romania Businesses

Garanti Holding BV ("*GHBV*"), having its official seat in Amsterdam, the Netherlands, was incorporated on 6 December 2007 as a private limited liability company. On 27 May 2010, the Bank purchased from Doğuş Holding all of the shares of GHBV, which is the sole shareholder of G Netherlands BV ("*G Netherlands*"). G Netherlands is the shareholder of Garanti BBVA Romania, Motoractive IFN SA ("*Motoractive*") and Ralfi IFN SA ("*Ralfi*"), each founded in Romania.

G Netherlands was incorporated on 3 December 2007 in Amsterdam, the Netherlands and is an intermediate holding company with no trading activities. As of 30 September 2021, G Netherlands had investments in three Romanian companies specialising in financial services: Garanti BBVA Romania (99.9964%), which provides banking activities; Motoractive (99.99997%), which provides financial leases; and Ralfi (99.9994%), which provides consumer loans (sales finance and private label credit cards). Motoractive Multiservices SRL, a company providing operating leasing and related services, was incorporated by Motoractive in April 2007 and is a 100% subsidiary thereof. On 14 November 2014, Domenia, a mortgage provider company existing at the original acquisition of GHBV in 2010 and a subsidiary of G Netherlands, was acquired by Garanti BBVA Romania as a result of a merger process.

Garanti BBVA Romania was active in the Romanian market as a branch of GBI since 1998, which branch was transferred into the newly licensed bank, incorporated in Romania, in May 2010. As of 30 September 2021, Garanti BBVA Romania operated 71 branches, 25 of which were located in the capital city Bucharest. The bank offers a full scope of universal banking products and services to its 426,877 customers (as of 30 September 2021) from the retail, SME and corporate segments. With 294,130 credit and debit cards and 9,811 active (14,771 in total) POS terminals as of 30 June 2021, Garanti BBVA Romania ranked in the top 10 in terms of the numbers of issued credit cards (with a market share of 5.25% (including non-banking financial institutions), in the issued credit cards market as of such date and POS terminals (with a market share of 5.43%) in Romania, according to the public figures available from the Romanian National Bank as of such date.

Motoractive is a joint-stock company incorporated in Romania. Motoractive undertakes leasing activities, mainly motor vehicles but also industrial plant, office equipment and real estate. Motoractive had 1,754 customers with 4,505 active contracts as of 30 September 2021 and has an extensive partnership network.

Ralfi's main activity is to provide consumer loans, particularly sales finance and personal loans. As of 30 September 2021, Ralfi had 24,699 clients.

The consolidated asset size of GHBV was €2.5 billion as of 31 December 2018, €2.5 billion as of 31 December 2019, €2.4 billion as of 31 December 2020 and €2.5 billion as of 30 September 2021. GHBV contributed €26.9 million to the Group's consolidated net profit/(loss) in 2018, €26.4 million in 2019, €19.0 million in 2020 and €26.8 million in the first nine months of 2021.

Garanti Factoring

Garanti Faktoring A.Ş. ("*Garanti Factoring*"), founded in 1990, is one of Turkey's oldest factoring companies. As of 30 September 2021, 81.84% of the company's shares are owned by the Bank, 9.78% of its shares are owned by Export Credit Bank of Turkey and the remaining shares are traded on the Borsa İstanbul. With a broad customer base, Garanti Factoring makes use of the Bank's delivery channels to provide high-quality factoring products and services to its customers. The company recorded US$1.9 million in volume of receivables financed through factoring in 2018, US$2.5 million in 2019, US$1.8 million in 2020 and US$1.4 million in the first nine months of 2021, representing a market share of 9.20% as of 30 September 2021 in Turkey according to the Association of Financial Institutions (*Finansal Kurumlar Birliği*).

Garanti Factoring had a net profit/(loss) of TL (57,376) thousand in 2018, TL 24,438 thousand in 2019, TL 50,150 thousand in 2020 and TL 95,925 thousand during the first nine months of 2021. The company's total assets amounted to TL 2,434,061 thousand as of 31 December 2018, TL 2,201,627 thousand as of 31 December 2019, TL 2,912,563 thousand as of 31 December 2020 and TL 3,805,461 thousand as of 30 September 2021.

Garanti Securities

Garanti Yatırım Menkul Kıymetler A.Ş. ("*Garanti Securities*") is a subsidiary of the Bank and one of the leading securities houses and investment banks in Turkey. Garanti Securities serves Turkish and international customers in the areas of investment banking, brokerage, research and treasury.

Garanti Securities provides equity brokerage services through its sales team and benefits from the Bank's branch network while providing its services to its retail clients. As of 30 September 2021, Garanti Securities provided brokerage services to 464,968 customers. In the first nine months of 2021, the company's market share in the equity market was 5.7% (ranking fourth) while its derivatives market share was 4.4% (ranking sixth). In 2020, the company's equity market share was 5.7% (ranking fourth) while its derivatives market share was 5.4% (ranking fourth).

In 2020, foreign exchange client transaction volume increased to US$23.7 billion from US$17.7 billion in 2019, which itself had increased from US$14.3 billion in 2018. The reason for the increase in volume in 2019 and 2020 was the increase in the number of clients (from 410 in 2018 to 502 in 2019 and 696 in 2020). During the first nine months of 2021, the foreign exchange client transaction volume was US$11.8 billion (with 473 customers).

In 2020, Garanti Securities' international markets client transaction volume increased to US$24.6 billion from US$3.4 billion in 2019, which itself had increased from and US$68 million in 2018. The significant increase in 2019 was mainly due to adding futures product to the company's platform whereas the change in 2020 was primarily the result of an almost six times increase in the number of customers. During the first nine months of 2021, Garanti Securities' international markets client transaction volume was US$16.4 billion (with 4,936 customers).

As one of the leading investment banks, Garanti Securities has successfully completed numerous mergers and acquisition, equity offerings, debt offerings and privatisation transactions, with a total transaction size of more than $76.5 billion from its establishment in May 1991 through 30 September 2021 ($3.1 billion in 2020 alone and US$2.5 billion in the first nine months of 2021).

From the beginning of 2016, Garanti Securities' treasury department has been providing pricing to listed single stock and index options. The company has been acting as a market maker in the Turkish equity derivatives market and achieved TL 209 billion in volume in 2018 on the futures and options market, TL 231 billion in 2019, TL 312.7 billion in 2020 and TL 228.9 billion in the first nine months of 2021. Garanti Securities held a 20.6% market share in the index options market, a 34.6% market share in the equity options market and a 29.5% market share in the "Vadeli İşlem ve Opsiyon Piyasası" ("*VIOP*") options market (the market leader) during the first nine months of 2021, while the market shares in the index options and VIOP options markets were 39.64% and 26.44% (the market leader), respectively, in full year 2020.

Garanti Asset Management

Founded in June 1997 as the first asset management company in Turkey, Garanti Portföy Yönetimi A.Ş. ("*Garanti Asset Management*") is a wholly-owned subsidiary of the Bank. As of 30 September 2021, Garanti Asset Management managed 66 mutual funds, in which Garanti Asset Management is also the owner/issuer, 32 pension funds of Garanti BBVA Pension and Life, one pension fund owned by another pension company and the portfolio of Garanti Yatırım Ortaklığı A.Ş. (a closed-end fund listed on the Borsa İstanbul). The company also provides discretionary portfolio management services for both institutional and individual clients.

Garanti Asset Management's market share in terms of mutual funds was 9.18% as of 30 September 2021 according to Rasyonet, a third-party data vendor. As of such date, total assets under management amounted to TL 48.1 billion and, according to Rasyonet), the market share of pension funds was 13.93%. The mutual funds managed by the company had a market value of US$20.4 billion as of 30 September 2021. Garanti Asset Management distributes its mutual funds through the Bank's branches, DCs and third party distribution channels, such as TEFAS (*Türkiye Elektronik Fon Alım Satım Platformu*) (Turkish Electronic Fund Distribution Platform).

The paragraph in the section titled "The Group and its Business - Properties" on page 137 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

As of 30 September 2021, the total net book value of the Group's tangible assets (net) (which includes land, buildings and furniture) was TL 5,659,077 thousand, which was 0.9% of its total assets. The Group maintains comprehensive insurance coverage on all of the real estate properties that it owns.

The first paragraph in the section titled "The Group and its Business - Anti Money-Laundering, Combating the Financing of Terrorism and Anti-Bribery" on page 138 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

In October 2014, the OECD's Working Group on Bribery adopted the Phase 3 Report on Implementing the OECD Anti-Bribery Convention. In this report, the OECD Working Group expressed concerns about Turkey's low level of anti-bribery enforcement and recommended that Turkey improve its efforts to proactively detect, investigate and prosecute allegations of foreign bribery. The OECD Working Group also expressed concern regarding certain deficiencies in Turkey's corporate liability legislation and enforcement against legal persons and made several recommendations to address these concerns. In addition, on 21 October 2021, the FATF placed Turkey on the so-called "grey list" of countries in need of elevated supervision of its legal framework for combatting terrorism and money laundering. The FATF cited concerns about inadequate supervision of Turkey's banking and real estate sectors and dealers in gold and precious stones, including having undertaken insufficient prosecutorial efforts against violators (including freezing of assets). Changes in Turkish laws and practices might arise from these recommendations, which the Bank will monitor.

RISK MANAGEMENT

The fourth paragraph in the section titled "Risk Management - Overview" on page 141 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

A summary of the Bank's management of certain risks is set forth below. See note 4.10.1 of the Group's BRSA Interim Financial Statements for additional information on the management of these and other risks as of the date thereof.

MANAGEMENT

The third paragraph in the section titled "Management - Compensation" on page 155 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The net payment provided or to be provided to the key management of the Bank and its consolidated financial subsidiaries (including members of their respective board of directors) amounted to TL 134,010 thousand during 2018, TL 134,035 thousand during 2019, TL 116,069 thousand during 2020 and TL 95,818 thousand during the first nine months of 2021, including compensation paid to key management personnel who left their position during the period.

OWNERSHIP

The following paragraph is hereby inserted after the eighth paragraph in the section titled "Ownership" on page 157 of the Base Prospectus:

On 15 November 2021, BBVA announced a voluntary tender offer for all the shares in the Bank that BBVA did not own as of such date (*i.e.*, 50.15%). BBVA has been notified by the CMB that it will not formally approve the application for the tender offer until the CMB receives confirmation from BBVA that all relevant approvals required of BBVA (including from the BRSA and Spanish authorities) have been obtained.

RELATED PARTY TRANSACTIONS

The third paragraph in the section titled "Related Party Transactions" on page 159 of the Base Prospectus and the table thereafter in such section are hereby deleted in their entirety and replaced by the following:

Turkish banking regulations limit exposure to related parties to 20% of the total capital, and the Group's exposure to the BBVA Group is well within the limit permitted by the regulations. See "Turkish Regulatory Environment - Lending Limits." The following tables indicate the level of the Group's relationships with members of the BBVA Group as of the dates indicated. See also note 5.7 of the Group's BRSA Financial Statements for additional information on related party risks.

	As of 31 December			**As of**
	2018	**2019**	**2020**	**30 September 2021**
BBVA Group	*(TL thousands, except percentages)*			
Cash loans	4,329,526	147,011	879,749	743,193
As a % of assets	1.1%	0.0%	0.2%	0.1%
As a % of shareholders' equity	9.2%	0.3%	1.4%	1.0%
Contingent obligations	995,647	1,053,375	957,567	1,558,459
As a % of contingent obligations	1.5%	1.7%	1.2%	1.5%
As a % of shareholders' equity	2.1%	1.9%	1.5%	2.2%
Total BBVA Group Exposure	**5,325,173**	**1,200,386**	**1,837,316**	**2,301,652**

The sixth paragraph in the section titled "Related Party Transactions" on page 159 of the Base Prospectus and the table thereafter in such section are hereby deleted in their entirety and replaced by the following:

The Group also had derivative transactions with the BBVA Group as of the indicated dates as follows:

As of 31 December			**As of 30 September**
2018	**2019**	**2020**	**2021**
	(*TL thousands*)		
34,908,806	24,613,807	32,102,296	22,871,303

The seventh paragraph in the section titled "Related Party Transactions" on page 159 of the Base Prospectus and the table thereafter in such section are hereby deleted in their entirety and replaced by the following:

The Group had deposits from members of the BBVA Group as of the indicated dates as follows:

As of 31 December			**As of**
2018	**2019**	**2020**	**30 September 2021**
	(*TL thousands*)		
351,755	379,369	859,935	310,656

EXHIBIT A

SUMMARY FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the following summary financial and other information have been extracted from the Group's BRSA Annual Financial Statements and BRSA Interim Financial Statements without material adjustment. The information in this section should be read in conjunction with the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the relevant BRSA Financial Statements (including the notes therein) incorporated by reference herein.

				Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
			(*TL thousands*)		
Interest income	41,246,027	42,045,625	39,393,261	28,203,500	41,318,041
Interest expense	(20,369,094)	(21,372,200)	(14,000,693)	(9,922,059)	(17,455,323)
Net interest income	**20,876,933**	**20,673,425**	**25,392,568**	**18,281,441**	**23,862,718**
Net fees and commissions income/expenses	5,102,687	6,273,573	6,587,665	4,865,513	6,489,928
Dividend income	7,691	11,276	22,178	20,118	134,097
Net trading income/losses(net)	(1,145,747)	(1,806,062)	702,894	2,321,948	(3,224,052)
Other operating income	3,517,425	5,676,784	6,550,123	5,395,362	8,522,842
Total operating profit	**28,358,989**	**30,828,996**	**39,255,428**	**30,884,382**	**35,785,533**
Expected credit losses[(1)]	(10,836,246)	(12,347,652)	(18,159,994)	(14,994,411)	(13,567,903)
Other operating expenses	(8,768,985)	(10,309,076)	(11,886,838)	(8,518,619)	(10,123,014)
Profit/(loss) before taxes	**8,753,758**	**8,172,268**	**9,208,596**	**7,371,352**	**12,094,616**
Provision for taxes	(2,047,153)	(1,930,878)	(2,823,433)	(2,131,325)	(3,023,025)
Net profit/(loss)	**6,706,605**	**6,241,390**	**6,385,163**	**5,240,027**	**9,071,591**
Attributable to equityholders of the Bank	6,641,652	6,164,914	6,305,090	5,183,510	8,983,541
Attributable to minority interests	64,953	76,476	80,073	56,517	88,050

(1) Including other provisions.

Balance Sheet Data:	As of 31 December						As of 30 September	
	2018	**%**	**2019**	**%**	**2020**	**%**	**2021**	**%**
Assets:	*(TL thousands, except for percentages)*							
Cash and cash equivalents	67,155,496	16.8	72,098,035	16.8	94,253,040	17.4	112,315,780	17.8
Financial assets measured at fair value through profit/(loss) (FVTPL)[1]	4,641,037	1.2	5,219,300	1.2	8,382,731	1.5	7,112,457	1.1
Financial assets measured at fair value through other comprehensive income (FVOCI)	27,162,953	6.8	28,643,529	6.7	36,785,565	6.8	44,570,638	7.1
Derivative financial assets	4,093,695	1.0	2,999,557	0.7	4,614,552	0.9	4,806,096	0.8
Loans[2]	256,009,555	64.1	277,506,599	64.8	350,233,129	64.7	413,898,805	65.6
Lease receivables	6,966,040	1.7	6,184,154	1.4	7,508,708	1.4	9,149,766	1.5
Factoring receivables	2,586,133	0.6	2,430,163	0.6	2,926,569	0.5	3,768,019	0.6
Other financial assets measured at amortised cost[3]	24,654,009	6.2	27,720,342	6.5	33,238,911	6.1	33,547,311	5.3
Expected credit losses[4]	(13,148,150)	(3.3)	(17,563,538)	(4.1)	(21,136,046)	(3.9)	(23,937,402)	(3.8)
Assets held for sale and assets of discontinued operations[1]	857,695	0.2	1,452,258	0.3	931,753	0.2	609,311	0.1
Ownership investments (net)	132,871	0.0	153,854	0.0	166,495	0.0	81,572	0.0
Tangible assets	4,494,918	1.1	5,528,299	1.3	5,960,071	1.1	5,659,077	0.9
Intangible assets	416,072	0.1	479,906	0.1	614,398	0.1	765,889	0.1
Investment property	558,309	0.1	569,719	0.1	561,525	0.1	598,353	0.1
Current tax assets	175,266	0.0	86,217	0.0	88,983	0.0	27,327	0.0
Deferred tax assets	1,519,177	0.4	1,882,010	0.4	3,640,403	0.7	3,952,012	0.6
Other assets	10,878,525	3.0	13,163,744	3.2	12,142,018	2.2	13,923,409	2.2
Total assets	**399,153,601**	**100.0**	**428,554,148**	**100.0**	**540,912,805**	**100.0**	**630,848,420**	**100.0**
Liabilities:								
Deposits	244,237,777	61.2	277,277,325	64.7	358,100,348	66.2	428,204,119	67.9
Funds borrowed	33,339,727	8.4	25,622,059	6.0	26,620,183	4.9	29,842,700	4.7
Money markets funds	2,634,590	0.7	1,786,861	0.4	3,163,978	0.6	5,514,188	0.9
Securities issued (net)	26,911,463	6.7	21,026,537	4.9	22,817,081	4.2	19,522,833	3.1
Financial liabilities measured at FVTPL	12,312,230	3.1	14,342,293	3.3	16,137,939	3.0	17,372,080	2.8
Derivative financial liabilities	4,510,162	1.1	4,239,665	1.0	8,536,890	1.6	6,126,301	1.0
Lease payables	—	—	1,134,770	0.3	1,026,367	0.2	981,051	0.2
Provisions	5,369,512	1.3	6,526,373	1.5	10,035,571	1.9	12,276,925	1.9
Current tax liability	646,881	0.2	1,251,975	0.3	2,296,347	0.4	2,142,467	0.3
Deferred tax liability	19,121	0.0	29,480	0.0	48,863	0.0	49,905	0.0
Subordinated debts	3,977,018	1.0	4,729,707	1.1	6,598,969	1.2	7,811,841	1.2
Other liabilities	18,308,278	4.6	16,536,356	3.9	23,121,074	4.3	29,878,894	4.7
Total liabilities	**352,266,759**	**88.3**	**374,503,401**	**87.4**	**478,503,610**	**88.5**	**559,723,304**	**88.7**
Shareholders' equity	**46,886,842**	**11.7**	**54,050,747**	**12.6**	**62,409,195**	**11.5**	**71,125,116**	**11.3**
Total liabilities and shareholders' equity	**399,153,601**	**100.0**	**428,554,148**	**100.0**	**540,912,805**	**100.0**	**630,848,420**	**100.0**

(1) As disclosed in Note 5.1.2.2 of the Group's BRSA Interim Financial Statements as of and for the nine month period ended 30 September 2021, financial assets measured at fair value through profit/(loss) includes a loan amounting to US$744,767,301 (US$756,288,034, US$710,182,828 and US$782,928,541, respectively, as of 31 December 2020, 2019 and 2018) provided to LYY as described in "Risk Factors - Risks Relating to the Group's Business - Counterparty Credit Risk." The fair value of such loan was determined to be TL 4,496,588 thousand as of 30 September 2021, TL 4,500,540 thousand as of 31 December 2020, TL 4,207,523 thousand as of 31 December 2019 and TL 4,081,161 thousand as of 31 December 2018. This loan has been classified under financial assets measured at fair value through profit or loss. As disclosed in note 5.1.9.2 of the Group's BRSA Interim Financial Statements as of and for the nine month period ended 30 September 2021, at the ordinary general assembly meeting of the shareholders of LYY held on 23 September 2019, it was decided to convert a predetermined part of the loan into capital as agreed in the initial shareholders' agreement. As a result of such capitalisation, the nominal value of the Bank's shares in LYY increased from TL 11 thousand to TL 881,140 thousand. As of 31 December 2020, this amount was classified as part of the "assets held for sale and assets of discontinued operations," with the resulting valuation difference recorded on the loan being reflected as an impairment in "assets held for sale and assets of discontinued operations." In 2020, all of these amounts were booked as fully impaired. On 19 September 2019, an international investment bank was authorised by the shareholders of LYY to identify potential purchasers of the shares of Türk Telekom held by LYY and, in this context, negotiations with potential investors have started.

(2) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, non-performing loans amounting to TL 13,753,384 thousand as of 31 December 2018 that were previously classified as a separate line item under the "Loans (net)" line item were reclassified in 2019 to the "Loans," "Lease receivables" and "Factoring receivables" line items, as applicable.

(3) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, financial assets measured at amortised cost amounting to TL 24,654,009 thousand as of 31 December 2018 that were previously classified as "financial assets measured at amortised cost" under the "Financial assets (net)" line item were reclassified in 2019 to the "Other financial assets measured at amortised cost" line item.

(4) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, and parallel to the reclassification described in footnote (3), expected credit losses for financial assets measured at amortised cost amounting to TL 54,125 thousand as of 31 December 2018 that were previously classified under the "Financial assets (net)" line item were reclassified in 2019 to the "Expected credit losses" line item.

EXHIBIT B

CAPITALISATION OF THE GROUP

The Group's total shareholders' equity as of 30 September 2021 was TL 71,125,116 thousand, a 14.0% increase from TL 62,409,195 thousand as of 31 December 2020, which itself was a 15.5% increase from TL 54,050,747 thousand as of 31 December 2019, itself a further 15.3% increase from TL 46,886,842 thousand as of 31 December 2018. Shareholders' equity principally changes as a result of the Group's net profit/(loss) and changes in the amount of unrealised gains and losses on financial assets measured at fair value through other comprehensive income (which changes are not included in profit/(loss)). The following table sets forth the components of the Group's shareholders' equity as of the indicated dates and should be read in conjunction with the Group's BRSA Financial Statements (including the notes therein) incorporated by reference into this Base Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	As of 31 December			As of 30 September
	2018	**2019**	**2020**	**2021**
		(TL thousands)		
Paid-in capital	4,200,000	4,200,000	4,200,000	4,200,000
Capital reserves	784,434	784,434	784,434	784,434
Other comprehensive income/expense items not to be recycled to profit or loss	1,473,394	1,642,584	1,712,571	1,783,979
Other comprehensive income/expense items to be recycled to profit or loss	611,843	1,371,976	3,081,402	3,278,999
Profit reserves	32,977,973	39,612,929	46,078,019	51,806,571
Profit/(loss)	6,641,652	6,164,914	6,305,090	8,983,541
Minority interest	197,546	273,910	247,679	287,592
Total shareholders' equity	**46,886,842**	**54,050,747**	**62,409,195**	**71,125,116**

For additional information on the Group's shareholders' equity, see note 5.2.14 of the Group's BRSA Interim Financial Statements as of and for the nine months ended 30 September 2021.

The following table summarises the components of the Group's total capitalisation using the shareholders' equity figures set forth above:

	As of 31 December			As of 30 September
	2018	**2019**	**2020**	**2021**
		(TL thousands)		
Total shareholders' equity	46,886,842	54,050,747	62,409,195	71,125,116
Subordinated debt	3,977,018	4,729,707	6,598,969	7,811,841
Total Capitalisation	**50,863,860**	**58,780,454**	**69,008,164**	**78,936,957**

EXHIBIT C

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial position and results of operations of the Group covers the fiscal years ended 31 December 2018, 2019 and 2020 and the first nine months of 2020 and 2021. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Annual Financial Statements and BRSA Interim Financial Statements without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and the other financial information included in (including incorporated by reference into) this Base Prospectus (including the section entitled "Presentation of Financial and Other Information"). The BRSA Annual Financial Statements and BRSA Interim Financial Statements have been prepared in accordance with the BRSA Principles as described in "Presentation of Financial and Other Information." For a discussion of current significant differences between IFRS and the BRSA Principles, see Appendix A ("Overview of Differences between IFRS and the BRSA Principles").

Certain information contained in the discussion and analysis set forth below and elsewhere in this Base Prospectus includes "forward-looking statements." Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Cautionary Statement Regarding Forward-Looking Statements."

The Group's financial condition and results of operations depend significantly upon the macro-economic, political and regulatory conditions prevailing in Turkey and prospective investors should consider the factors set forth under "Risk Factors – Risks Relating to Turkey" and "Risk Factors – Risks Relating to the Group and its Business."

The discussion and analysis of the financial condition and results of operations of the Group in this Base Prospectus are based upon the BRSA Annual Financial Statements and BRSA Interim Financial Statements. The Group prefers to present its financial condition and performance on the basis of the BRSA Annual Financial Statements and BRSA Interim Financial Statements as the Group has historically presented its financial statements to investors and potential investors using the BRSA Principles and uses such financials for regulatory requirements, and thus the Bank's management believes that providing BRSA financial data in this Base Prospectus will provide for a consistent presentation of the Group's financial performance.

Unconsolidated Compared to Consolidated Financial Statements

The operations of the Bank are undertaken both by the Bank directly and through its consolidated entities; *however*: (a) the Bank is the issuer of the Notes, (b) it is only the Bank that has any payment or other obligations in respect of the Notes and (c) no other member of the Group nor any other entity will have any responsibility for the Bank meeting its obligations under the Notes.

The Bank produces audited unconsolidated and consolidated annual BRSA Financial Statements and, for each of the first three fiscal quarters of a fiscal year, unaudited unconsolidated and consolidated quarterly BRSA Financial Statements. The BRSA Annual Financial Statements discussed in this section are principally those of the Group; *however*, information referenced as being of the Bank are from the Bank's BRSA Annual Financial Statements. As of 31 December 2018, 2019 and 2020 and 30 September 2021, the Bank had total assets of TL 359.5 billion, TL 391.2 billion, TL 492.8 billion and TL 573.5 billion, respectively, as compared to total assets of the Group of TL 399.2 billion, TL 428.6 billion, TL 540.9 billion and TL 630.8 billion, respectively, with unconsolidated total assets representing 90.1%, 91.3%, 91.1% and 90.9% of consolidated total assets, respectively. As of the same dates, the Bank had total liabilities of TL 312.8 billion, TL 337.4 billion, TL 430.7 billion and TL 502.7 billion, respectively, as compared to total liabilities of the Group of TL 352.3 billion, TL 374.5 billion, TL 478.5 billion and TL 559.7 billion, respectively, with unconsolidated total liabilities representing 88.8%, 90.1%, 90.0% and 89.8% billion of consolidated total liabilities, respectively.

For 2018, 2019 and 2020, the Bank had current period profit/loss from continued operations of TL 6.6 billion, TL 6.2 billion and TL 6.2 billion, respectively (TL 5.1 billion and TL 9.1 billion, respectively, for the first nine months of 2020 and 2021), as compared to current period profit/loss from continued operations of the Group of TL 6.7 billion, TL 6.2 billion and TL 6.4 billion, respectively (TL 5.2 billion and TL 9.1 billion, respectively, for the first nine months of 2020 and 2021), with unconsolidated current period profit/loss from continued operations representing 99.0%, 98.7% and 97.7% of consolidated current period profit/loss from continued operations, respectively (97.8% and 100.3%, respectively, for the first nine months of 2020 and 2021).

For further information on the consolidated financial condition and results of operations of the Group, please see the BRSA Annual Financial Statements of the Group.

Significant Factors Affecting the Group's Financial Condition and Results of Operations

The Group's financial condition, results of operations and prospects depend significantly upon the macroeconomic conditions prevailing in Turkey as well as other factors. The impact of these factors might vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors." The following describes the most significant of such factors since the beginning of 2018.

Turkish Economy and Political Developments

The Group's operations are primarily in Turkey (or related to Turkish activities) and almost all of its operating income and net income are derived from its Turkish operations (including Turkish-related business for the Group's operations abroad). Accordingly, its results of operations and financial condition are and will continue to be significantly affected by Turkish political, regulatory and macroeconomic factors, including factors such as currency fluctuations, the Central Bank's regulatory policy, economic growth rates, inflation and fluctuations in interest rates in Turkey. For additional information on political developments in Turkey, see "Risk Factors - Risks Relating to Turkey - Political Conditions - Political Developments."

The following table provides certain macroeconomic indicators for Turkey, including real GDP growth, inflation rates and the Central Bank's overnight Turkish Lira policy rate for each of the indicated periods:

	As of or for the year ended 31 December			As of or for the nine months ended 30 September 2021
	2018	**2019**	**2020**	
Nominal GDP at current prices (TL millions)	3,758,773	4,317,786	5,046,883	5,908,318[5]
Real GDP growth in Turkish Lira	2.6%	0.9%	1.8%	14.3%[5]
(Deficit)/surplus of consolidated budget/GDP[1]	(1.9)%	(2.9)%	(3.4)%	(1.6)%[5]
CPI[2]	20.3%	11.8%	14.6%	19.9%[6]
Producer Price Inflation[2]	33.6%	7.4%	25.1%	46.3%[6]
Central Bank overnight TL borrowing interest rate, period-end	22.50%	10.50%	15.50%	16.50%
Central Bank one week TL repo rate/policy rate, period-end[3]	24.00%	12.00%	17.00%	18.00%
Refinancing rate of the Central Bank, period-end	25.50%	13.50%	18.50%	19.50%
Central Bank late liquidity window lending interest rate, period-end	27.00%	15.00%	21.50%	22.50%
Central Bank weighted average cost of funding, period-end	24.00%	11.40%	17.00%	18.00%
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar[4]	(38.1)%	(12.5)%	(23.6)%	(19.7)%
CPI-based real effective exchange rate appreciation (depreciation) (2003=100)	(11.5)%	(0.2)%	(18.4)%	1.5%
Total gross gold and international currency reserves, period-end (U.S. dollars, millions)	91,930	106,319	93,206	121,721

Sources: TurkStat (for nominal GDP at current prices, real GDP growth and inflation), Turkish Treasury, General Directorate of Public Accounts (for deficit/surplus of consolidated budget) and Central Bank (for reference overnight borrowing interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar, real effective exchange rate and total gross gold and international currency reserves).

(1) This figure is the sum of the budget deficit as of each month-end date for the 12-month period ended 30 June 2021 over the sum of the GDP amounts as of each quarter-end date for the four consecutive quarters ended on such date.

(2) Last 12 month percentage change of the applicable index.

(3) The Central Bank announces the weekly repo lending rate as the reference rate. This rate was reduced to 16.00% on 21 October 2021 and then 15.00% on 18 November 2021.

(4) Central Bank buying rates.

(5) For the 12 months ended 30 June 2021 (the last day for which such information is available as of 19 November 2021).

(6) For the last 12 months as of October 2021.

Since the beginning of 2018, economic conditions across emerging markets, including Turkey, have been volatile as a result of several factors, including expectations regarding slower growth in China, the trade dispute between the U.S. and China, the expectation of (and actual) rate hikes and rate cuts by the U.S. Federal Reserve, the strengthening of the U.S. dollar and, most recently, the impact of the COVID-19 pandemic. See "-Global Economic Conditions" below. In addition, there has been considerable uncertainty regarding Turkey's political and geopolitical conditions resulting from a variety of factors, including the attempted coup in 2016, the extension of the powers of the president following the presidential and parliamentary elections held on 24 June 2018 and the May 2019 decision to hold a revote of the İstanbul mayoral election (see "Risk Factors - Risks Relating to Turkey - Political Conditions - Political Developments"), continued and intensified conflict with the PKK, the regional conflicts in Syria and neighbouring jurisdictions, the conflict in Libya (see "Risk Factors - Risks Relating to Turkey - Political Conditions - Terrorism and Conflicts") and changes in the governance and/or policies of the Central Bank. The situation in Turkey was exacerbated starting in August 2018 as a result of deteriorating relations with the United States (see "Risk Factors - Risks Relating to Turkey - Political Conditions - Political Developments"), and then increasing conflicts with Greece, other members of the EU and the EU itself (see "Risk Factors - Risks Relating to Turkey - Political Conditions - Relationship with the European Union"), which relations remain uncertain.

Partially as a result of these factors, GDP growth in Turkey has been slow for the past three years, which has impacted the Group's growth and increased concerns about non-performing loans. While the economy recorded strong growth in the first half of 2018, it started to slow down in the second half due to significant volatility in foreign exchange rates and increases in interest rates, particularly in the third quarter. With negative growth of 2.8% in the final quarter of 2018, the Turkish economy grew by only 2.8% in 2018. The negative growth continued in the first two quarters of 2019 before turning positive with 0.9% growth in the third quarter and 6.0% growth in the last quarter (resulting in 0.9% growth for the full year). In the first three months of 2020, GDP increased by 4.5% compared to the same period of the previous year; *however*, GDP sharply decreased by 9.9% in the second quarter of the year driven by the impact of the COVID-19 pandemic. GDP then returned to growth in the third and fourth quarters of 2020, increasing by 6.3% and 5.9% compared to the same periods of the previous year, which growth was supported by an increase in investments and household consumption. As a result, including due to the continuing impact of COVID-19 both on Turkey and globally, overall GDP growth for 2020 was only 1.8%. Growth in 2021 is expected to improve from 2019 and 2020; *however*, the level of recovery remains dependent upon the progression of the pandemic in Turkey and elsewhere and the successful implementation of Turkey's economic policies.

It should be noted that though the Turkish Lira GDP results in nominal Turkish Lira terms are high, as the exchange rate of the Turkish Lira against the U.S. dollar varies (in some years, significantly), these reported changes in GDP would have been different (in some years, significantly different) were they determined in U.S. dollar terms (*e.g.*, in 2020, the Turkish Lira depreciated by 23.6% against the U.S. dollar, which greatly exceeded the year's nominal GDP increase, resulting in a significant decline in the Turkish GDP in U.S. dollar terms notwithstanding the significant increase in Turkish Lira terms). Year-to-date through 18 November 2021, the Turkish Lira has depreciated by a further 43.96% against the U.S. dollar.

Although the EU-defined Turkish government debt level decreased considerably since 2001 and reached its lowest level with 27.4% of GDP in 2015, it then increased to 38.4% as of the second quarter of 2021, and (although this remains well below the Maastricht criteria), Turkey remains an emerging market and remains susceptible to a higher degree of volatility than more developed markets due to a number of factors (see "Risk Factors - Risks Relating to Turkey").

Continuing high levels of unemployment might affect the Group's customers, which might impair its business strategies and/or have a material adverse effect on its business, financial condition and/or results of operations.

Impact on Asset Quality. NPLs are particularly sensitive to economic conditions and this remains a key area of focus for the Bank given its strong loan growth and macroeconomic conditions in Turkey. As of 31 December 2018, 2019 and 2020 and 30 September 2021, the Group's NPL ratio for its entire loan portfolio was 5.2%, 6.8%, 4.5% and 3.8%, respectively, with an NPL ratio for its retail loan portfolio of 4.2%, 4.3%, 2.5% and 2.1%, respectively, as of such dates and an NPL ratio for its commercial and corporate loan portfolio of 5.2%, 7.6%, 5.1% and 4.5%, respectively, as of such dates. During 2019, the increase in the Group's NPLs was principally due to low economic activity and high unemployment levels, with corporate and commercial inflows constituting two-thirds of the NPL inflow during the year (and would have been higher absent the impact of NPL sales of TL 1.0 billion and write-downs of TL 876 million during 2019). In addition to some small NPL sales, the Group had TL 4.7 billion and TL 1.2 billion of write-downs in 2020 and the first nine months of 2021, respectively, accounting for a 1.4% decline in the NPL ratio (*i.e.*, the NPL ratio would have been higher by such amount had such write-offs not occurred).

On 17 March 2020, the BRSA (effective through 30 June 2021 and then further extended to 30 September 2021) revised guidelines on NPL recognition so that 180 days (instead of 90 days) non-payment would require classifying a loan as an NPL, which change had a significant impact on limiting the pace of new NPLs during this period. On 16 September 2021, the BRSA announced that, notwithstanding the expiration of this temporary rule on 30 September 2021, it would still apply to loans that were overdue for more than 31 days but less than 90 days as of 1 October 2021. The Bank's management expects that the Group's NPL ratio will increase after 30 September 2021 by up to a nominal 0.40% due to the lapse of such rule on such date due. See "Turkish Regulatory Environment – Expected Credit Losses."

In addition, a number of large corporate borrowers have restructured their loans due to financial pressures resulting from the economic volatility in Turkey, including in particular foreign exchange conditions, and the Bank's management anticipates that further such restructurings and even defaults might occur in corporate and SME loans as conditions remain challenging for borrowers, which might lead to further material NPL inflows. In addition, conditions remain challenging for a number of other large corporate borrowers, which might lead to further material NPL inflows. Although no such loan has become non-performing or delinquent as of 30 September 2021, in the event such a loan or other loans become non-performing, or there is a slowdown in economic conditions, this could have a material adverse effect on the asset quality of Turkish banks, including the Bank.

As of 30 September 2021, restructured loans represented 52.1% of the total Stage 2 loans and had a 24.5% coverage ratio, which was higher than the 16.9% coverage ratio for all Stage 2 loans (thus including also such restructured loans) as of such date.

Loan Growth

In the first half of 2018, the Bank recorded growth of 9.0% in Turkish Lira-denominated loans; *however*, due to the high volatility and unexpected market developments in the second half of the year, new Turkish Lira-denominated originations in consumer and business loans were lower than the amount of such loans that matured during the period and, as a result, the growth for all of 2018 was only 2.2%. In addition, there was in 2018 a 17.3% increase in foreign currency-denominated loans primarily due to the depreciation of the Turkish Lira. Accordingly, the growth in total loans during 2018 was only 7.0%, with the increase resulting from the depreciation of the Turkish Lira and the corresponding increase (in Turkish Lira terms) of the remaining foreign currency-denominated loans. Conversely, the growth in credit card loans was strong, growing 15.6% during the year.

In the first half of 2019, due to the continuing high interest rate environment, loan demand remained low and the growth in Turkish Lira-denominated loans (excluding Stage 3 loans) was only 0.6%; *however*, starting in July 2019, the Central Bank started reducing rates due to the faster-than-expected downward trend in inflation (reducing to 12.00% by the end of 2019). Following these significant rate cuts, loan demand increased (particularly in the fourth quarter of 2019) and the Group's Turkish Lira-denominated loans (excluding Stage 3 loans) increased by 6.1% in the fourth quarter of 2019, bringing the full year growth to 7.0%. While the growth for the year was balanced across categories, business banking loans were stronger in the first quarter of 2019 and general purpose loans to retail customers were stronger in the fourth quarter of 2019. With respect to foreign currency-denominated loans (excluding Stage 3 loans), there was a decline of 5.9% (calculated in U.S. dollar terms) during 2019, principally due to significant repayments during the third quarter of 2019.

The onset of the COVID-19 pandemic, and the government's response thereto, greatly impacted loan growth in 2020. Government support programmes, including an increase in the amount of loans eligible for the Credit Guarantee Fund (*Kredi Garanti Fonu*) (the "*KGF*") programme (which the government established in 2016 to stimulate economic growth, support high potential companies that have difficulty accessing funding due to collateralisation constraints and help Turkish banks to grow by allowing a 0% risk weight to be applied to the guaranteed portion of these loans), sought to maintain economic activity in Turkey and supported notable growth in loans starting from the second quarter of 2020. The second quarter experienced increases in business banking loans whereas general purpose loans to retail customers were strong during the second half of the year, driving the growth in Turkish Lira-denominated loans (excluding Stage 3 loans) for the whole year to 32.8%. With respect to foreign currency-denominated loans (excluding Stage 3 loans), there was a decline of 0.6% (calculated in U.S. dollar terms) during 2020, principally due to a lack of loan demand in the absence of investment projects.

In the first nine months of 2021, the growth in Turkish Lira-denominated loans was again strong, in this case due to increasing economic activity. The Group's Turkish Lira-denominated loans (excluding Stage 3 loans) increased by 21.7% during this period, which growth was balanced across categories (consumer loans were stronger in the first quarter of 2021, with business banking loans growing more substantially in the subsequent quarters). With respect to foreign currency-denominated loans (excluding Stage 3 loans), there was a further decline of 4.6% (calculated in U.S. dollar terms) during the first nine months of 2021, which reflected repayments and the continuing lack of demand for new loans.

As of 30 September 2021, total loans represented 65.6% of the Group's assets.

In 2018, the annual CPI inflation rate was 20.3%, while annual domestic producer price inflation during the year was 33.6%, both increasing significantly due principally to the depreciation of the Turkish Lira. In 2019, the CPI was 11.8% and domestic producer price inflation was 7.4%. In 2020, CPI was 14.6%, reflecting primarily an increase in food, energy and commodity prices (including due to the depreciation of the Turkish Lira). On 29 April 2021, the Central Bank published its second inflation report of 2021, indicating an inflation forecast for 2021 and 2022 of 12.2% and 7.5%, respectively, which was then further revised on 30 July 2021 to 14.1% for 2021 and 7.8% for 2022 and then revised again on 28 October

2021 to 18.4% for 2021 and 11.8% for 2022 (and 7.0% for 2023). As of October 2021, the last 12 month CPI inflation was 19.89% and the last 12 month domestic producer price inflation was 46.31%.

Currency Exchange Rates

A significant portion of the Group's assets and liabilities is denominated in foreign currencies, particularly the U.S. dollar and the euro. The share of Turkish Lira-denominated assets and liabilities in the Group's balance sheet has changed from 51.6% and 38.0%, respectively, as of 31 December 2018 to 53.8% and 39.1%, respectively, as of 31 December 2019, 54.1% and 38.8%, respectively, as of 31 December 2020 and 56.7% and 39.3%, respectively, as of 30 September 2021. While the Group monitors its net open position in foreign currencies (which is the amount by which its foreign currency-denominated assets differ from its foreign currency-denominated liabilities) and each of the Bank and the Group is required to comply with foreign currency net open position limits promulgated by the BRSA, each of the Bank and the Group has maintained and likely will continue to maintain gaps between the balances of its foreign currency assets and liabilities. A bank's limit imposed by the BRSA is defined as an amount plus/minus 20% of the total capital used in the calculation of such bank's regulatory capital adequacy ratios. The Group's and the Bank's foreign currency net long open position ratios were 4.2% and 3.8%, respectively, as of 31 December 2018, 6.8% and 6.4%, respectively, as of 31 December 2019, 18.2% and 17.3%, respectively, as of 31 December 2020 and 18.4% and 17.1%, respectively, as of 30 September 2021.

The Group had a net long open foreign currency position (including both on and off balance sheet positions) of US$423 million as of 31 December 2018, US$716 million as of 31 December 2019, US$1,804 million as of 31 December 2020 and US$1,728 million as of 30 September 2021. The change in the Group's net long foreign currency position in 2019 from 2018 was primarily due to relatively higher increases in foreign currency deposits, securities issued and short off-balance sheet position due to derivative transactions. In 2020 and the first nine months of 2021, derivative transactions were the primary factor in the continuing large net open foreign currency positions, with the Group hedging its balance sheet against the possibility of the continued depreciation of the Turkish Lira. The Group utilises swaps opportunistically to manage its funding cost, including (in times of excess foreign currency liquidity) utilising swaps when market conditions are attractive to create additional Turkish Lira liquidity instead of further competing for Turkish Lira deposits.

The following table provides the Group's net open position in different currencies as of the indicated dates:

	As of 31 December			As of 30 September
	2018	**2019**	**2020**	**2021**
		(millions)		
U.S. dollars	$(522)	$18	$757	$703
Euro[1]	€585	€354	€557	€523
Other currencies[2]	$277	$301	$365	$418
Total net foreign currency position[1][2][3]	**$423**	**$716**	**$1,804**	**$1,728**

(1) For the convenience of the reader, the total amounts of euro have first been converted into Turkish Lira by using the rates announced by the Bank as of the last day of the applicable period and were then converted into U.S. dollars based upon the TL/$ exchange rate as of such dates.
(2) For the convenience of the reader, the total amounts of other currencies have first been converted into Turkish Lira by using the rates announced by the Bank as of the last day of the applicable period and were then converted into U.S. dollars based upon the TL/$ exchange rate as of such dates.
(3) The positions indicated are net of the effects of hedging transactions and other off-balance sheet positions.

The Group translates its foreign currency-denominated assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains or losses realised upon the sale of such assets, into Turkish Lira in preparing its financial statements at the foreign exchange rate as of the balance sheet date. As a result, the Group's reported income is affected by changes in the value of the Turkish Lira with respect to foreign currencies. The overall effect of exchange rate movements on the Group's results of operations depends upon the successful implementation of the Group's hedging strategies as well as upon the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies, particularly if such depreciation or appreciation is of a larger scale than anticipated. The Group generally seeks to be fully hedged in terms of foreign exchange exposures; *however*, depending upon market conditions, it may prefer to carry certain open positions through spot or derivative foreign exchange transactions. In such cases, exposures are managed with hedges subject to the limits set by the management of the Bank and its subsidiaries and applicable BRSA legal limits. Recent regulatory changes for foreign currency transactions have aimed to preserve financial stability (*e.g.*, limiting the utilisation of foreign currency-denominated loans to exporters who have a natural foreign currency hedge and restricting the types of business contracts that can be executed in foreign currencies); *however*, the impact of these changes on the Group has been limited.

Currency volatility since the beginning of 2018 has been managed by the Group's reasonably balanced foreign currency position and hedging strategy. The Group had (after considering the Group's hedging strategy and other off-balance sheet positions) net foreign exchange and derivatives losses of TL 1,999,596 thousand in 2018, losses of TL 1,648,978 thousand in 2019, gains of TL 128,562 thousand in 2020 and losses of TL 4,311,007 thousand in the first nine months of 2021, which results were principally derived from swap costs or (in 2020) gains. See also "Operating Income - Other Operating Income" and "Other Operating Expenses" in "Analysis of Results of Operations for the nine months ended 30 September 2020 and 2021 and the years ended 31 December 2018, 2019 and 2020."

Exchange rate movements can also have an effect on the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies translate into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency translate into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios). As a result of the 38.1% depreciation of the Turkish Lira against the U.S. dollar in 2018, the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets and capital increased significantly in 2018, with a similar experience in 2019, 2020 and the first nine months of 2021 as a result of the 12.5%, 23.6% and 19.7%, respectively, depreciation against the U.S. dollar. See "– Capital Adequacy" below and "Risks Relating to Turkey - Economic Conditions" and "Risks Relating to Turkey - Turkish Regulatory and Other Matters - Banking Regulatory Matters."

Interest Rates

One of the primary factors influencing the Group's profitability is the level of interest rates in Turkey, which in turn influences the return on its securities portfolio and its loan and deposit rates. Interest earned and paid on the Group's assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates. The fluctuations in short-term and long-term interest rates impact the Group's net interest income differently based upon the repricing profile of the Group's interest-earning assets and interest-bearing liabilities. As of 30 September 2021, 21.0% of the Bank's Turkish Lira-denominated cash loan portfolio carried a floating interest rate (20.0%, 17.4% and 15.1%, respectively, as of 31 December 2018, 2019 and 2020).

The degree of the Group's exposure to interest rate risk is largely a function of the relative tenors of its interest-earning assets and interest-bearing liabilities, its ability to reprice (and the timing of any such repricing of) its interest-earning assets and interest-bearing liabilities (*e.g.*, whether their interest rates are determined on a fixed or floating basis) and its ability to hedge against interest rate risk.

Because the Group's interest-bearing liabilities (principally deposits) generally reprice faster than its interest-earning assets, changes in the short-term interest rates in the economy generally are reflected in the rates of interest paid by the Group on its liabilities before such interest rates are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group is positively affected (for example, the value of its fixed rate securities portfolio might increase and its interest margins might improve), but it might also be negatively impacted (for example, through the decline in net interest margins on assets funded by 0% interest rate demand deposits). On the other hand, when short-term rates increase, interest expenses on deposits (which are typically short-term and reset interest rates frequently) increase more significantly and/or quickly than interest income from loans (which are short-, medium- and long-term), resulting in a potential reduction in net interest income and the net interest margin. An increase in long-term rates generally has at least a short-term negative effect on the Group's net interest margin because its interest-earning assets generally have a longer repricing duration than its interest-bearing liabilities and because a portion of its interest-earning assets have fixed rates of interest (for example, 58.7%, 59.7%, 68.7% and 66.9% of the Bank's interest-earning assets were fixed-rate as of 31 December 2018, 2019 and 2020 and 30 September 2021, respectively); *however*, 49.8%, 49.4%, 38.3% and 41.0%, respectively, of the Group's securities portfolio consisted of CPI-linked securities as of such dates. Due to a downward trend in inflation, income from CPI-linked securities declined in 2019 (the CPI used in the determination of the Group's CPI-linked securities was 25.2% in 2018 and 8.5% in 2019). The significantly lower income from CPI-linked securities in 2019 was offset by the expansion in the core margin (*i.e.*, net interest income excluding interest on CPI-linked securities but including swap costs), which was mainly driven by decreasing funding costs.

The following table provides the Bank's net interest margin and average spread for the indicated periods:

	2018	2019	2020	Nine months ended 30 September 2021
Net interest margin	6.7%	6.2%	6.6%	6.8%
Turkish Lira assets	10.3%	9.3%	9.2%	9.2%
Foreign currency assets	1.1%	1.7%	2.5%	2.4%
Average spread				
Turkish Lira assets/liabilities	2.5%	7.1%	4.7%	1.0%
Foreign currency assets/liabilities	2.1%	2.9%	2.7%	2.7%

The following table provides the Group's net interest margin and average spread for the indicated periods:

	2018	2019	2020	Nine months ended 30 September 2021
Net interest margin	6.0%	5.9%	6.1%	6.2%
Average spread	3.9%	3.3%	4.0%	2.8%

In 2019, the Group's net interest margin was essentially unchanged from 2018, reflecting the counter-balanced impact of significantly lower interest rates on CPI-linked securities but an increasing loan-to-deposit spread (*i.e.*, the difference between the average yield earned on loans and the average yield paid on deposits). In the first half of 2019, deposit costs remained at elevated levels due to the continuing high interest rate environment; *however*, the Group's loan-to-deposit spread was relatively flat due to increasing yields on loans. In the second half of the year, this spread increased due to a decline in deposit rates as a result of rate cuts by the Central Bank. While pricing on new loans also declined, the Group benefitted from the faster repricing on deposits than on loans.

In 2020, the Group's net interest margin increased to 6.1% from 5.9% in 2019 despite a surge in funding cost post pandemic, reflecting that lending growth in the first half of 2020 was predominantly short-term (with an average maturity of less than one year) and thus repriced quickly. In the first nine months of 2021, the Group's net interest margin increased slightly to 6.2%; *however*, a majority of the lower-yielding Turkish Lira loans held by the Group matured by the end of the second quarter of 2021 and the pricing of newer loans reflected the current higher level of interest rates, which (along with increasing payments on CPI-linked securities due to increasing inflation) was supportive for the net interest margin in the third quarter of 2021 (though this re-pricing step-up might not continue given the Central Bank's actions to reduce interest rates starting from September 2021).

Significant Securities Portfolio

The Group has historically generated a significant portion of its interest income from its securities portfolio, with interest income on the Group's securities portfolio in 2018, 2019, 2020 and the first nine months of 2021 accounting for 20.0%, 13.5%, 16.6% and 16.3%, respectively, of its total interest income and 15.7%, 10.1%, 12.0% and 11.3%, respectively, of its total operating profit before deducting interest expense and fees and commissions expense when net trading gains/(losses) from derivative instruments and foreign exchange losses are excluded. The Group has also experienced large realised and unrealised gains and losses from the mark-to-market valuation and sale of securities, the results for which showed gains representing 24.3% of the Group's other operating income in 2018, losses representing 2.8% of the Group's other operating income in 2019, gains representing 8.8% of the Group's other operating income in 2020 and gains representing 12.8% of the Group's other operating income in the first nine months of 2021.

While the contribution of income from the Group's securities portfolio (including interest earned, trading income and other income) has been significant over the past three fiscal years, the Group expects that while interest income on the securities portfolio will continue to contribute to net operating profit, trading income will not continue to be as large going forward and the percentage of its assets invested in securities will remain constant or slightly decrease as loan demand is expected to accelerate when the Turkish economy returns to a higher pace of growth in the near future.

The Group's securities portfolio principally contains Turkish government debt securities, with more limited holdings of other securities such as corporate and foreign government debt securities. The Group's investment securities portfolio (which: (a) excludes its financial assets measured at fair value through profit or loss and (b) includes: (i) financial assets measured at fair value through other comprehensive income and (ii) financial assets measured at amortised cost) represented 13.0%, 13.2%, 12.9% and 12.4%, respectively, of the Group's total assets as of 31 December 2018, 2019 and 2020 and 30 September 2021. The share of the Group's investment securities portfolio in its total assets has remained fairly constant as the Group has continued its focus on cash loan lending, in part due to the Group's strategy to improve its net interest margin.

TFRS 9 provides for a forward-looking expected credit loss ("*ECL*") approach. See note 3.8 of the Group's BRSA Interim Financial Statements as of and for the nine months ended 30 September 2021. Therefore, the Group recognises expected credit losses at initial recognition for all financial assets measured at fair value through other comprehensive income (excluding equity instruments) and financial assets measured at amortised cost.

Provisions for Expected Credit Losses

The Group's financial results can be significantly affected by the amount of provisions for expected credit losses. The provision expense for losses on loans and other receivables in 2019 was TL 11,491,709 thousand, which was a 6.0% increase from the provisions for losses on loans and other receivables of TL 10,836,246 thousand in 2018. As of 31 December 2019, and after including the impact of NPL sales of TL 1.0 billion in 2019 and write-offs/write-downs of TL 876 million during the year, the NPL ratio increased to 6.8% from 5.2% as of 31 December 2018. This increase was primarily due to low economic activity and high unemployment levels, with corporate and commercial inflows constituting two-thirds of the NPL inflow during the year. New NPL inflows reached a peak in the third quarter of 2019 but started to improve in the following quarter. In addition, the Bank benefitted during the fourth quarter of 2019 from a new BRSA regulation that allows Turkish banks to move well-provisioned loans off their balance sheet.

In 2020, the Group's provisions for losses on loans and other receivables increased 24.7% to TL 14,330,950 thousand; *however*, the NPL ratio decreased to 4.5%, which decline was principally the result of the BRSA's temporary loan classification changes during the COVID-19 pandemic discussed previously and TL 4.7 billion in write-downs (with the BRSA's changes representing 0.36% of the decline and write-downs accounting for 1.3% of the decline). See "Turkish Regulatory Environment - Expected Credit Losses."

In the first nine months of 2021, the Group's provisions for losses on loans and other receivables were TL 13,567,903 thousand and the NPL ratio further declined to 3.8% as of 30 September 2021. As with 2020, this decline was due both to the BRSA's temporary measures (which extend the length of the period of non-payment before a loan or other receivable is considered to be non-performing, which thus temporarily reduces recognition of NPLs and, as a result, reduces the Group's reported NPLs) and TL 1.2 billion in write-downs (the impact of the BRSA's forbearance reduced the NPL ratio by 0.41% whereas write-downs reduced the NPL ratio by 0.3%).

The Bank's management has taken additional provisions in the form of general reserves, which the Bank's management has implemented in accordance with the conservatism principle. See "Risk Factors – Risks Relating to the Group and its Business – Other Group-Related Risks – Audit Qualification." The Group is unable to deduct general reserves from its taxable income, and thus an increase in general reserves increases the Group's effective tax rate.

The Bank's management elected to allocate TL 360,000 thousand in general reserves in 2009 in order to act conservatively in the context of the uncertainty created by the global financial crisis. The Bank's management decided to maintain this general reserve in 2010 and 2011, and elected to take a further TL 90,000 thousand reserve in 2011. This general reserve remained outstanding in the Group's financial statements during 2012; *however*, in 2013 the Bank's management reversed TL 115,000 thousand of these reserves. In 2014, the Bank's management decided to increase the level of general reserves by TL 80,000 thousand to TL 415,000 thousand, but, in 2015, the Bank's management decided that certain related risks had diminished and reversed TL 73,000 thousand of these reserves. In 2016, the Bank's management further reversed TL 42,000 thousand of these reserves. In 2017, the Bank's management decided to increase the level of general reserves by TL 860,000 thousand, with the total thus reaching TL 1,160,000 thousand. In 2018, the Bank's management increased the general reserves by TL 1,090,000 thousand to TL 2,250,000 thousand, increasing them again by TL 250,000 thousand in 2019 (to TL 2,500,000 thousand), by TL 2,150,000 thousand in 2020 (to TL 4,650,000 thousand) and by TL 1,950,000 thousand in the first nine months of 2021 (to TL 6,600,000 thousand), in each case due to the possible effects of negative circumstances that might arise in the economy or in market conditions. KPMG has qualified its reports included in the BRSA Financial Statements incorporated by reference into this Base Prospectus because general reserves are not permitted under the BRSA Principles.

Critical Accounting Policies

The Group's accounting policies are integral to understanding its financial condition and results of operations presented in the BRSA Financial Statements. The Group's significant accounting policies under the BRSA Principles as of and for the nine months ended 30 September 2021 are described in the notes to the Group's BRSA Financial Statements as of and for the nine months ended on such date (significant accounting policies for BRSA Financial Statements for other accounting periods being set forth in the respective reports). The Group's BRSA Financial Statements incorporated by reference into this Base Prospectus were prepared in line with TFRS 9 and TFRS 15 standards and (with respect to the BRSA Financial Statements as of and for the year ended 31 December 2019 and thereafter) also TFRS 16 standards. While information for 2019 and later periods is not comparable to the information presented for earlier periods due to the implementation of TFRS 16 as of 1 January 2019, this accounting policy change did not have a significant impact on the accounting policies, financial position and/or performance of the Group.

In the application of the Group's critical accounting policies, the management is required to make judgments, estimates and assumptions about future conditions. The use of available information and the application of judgment are inherent in the formation of estimates. The Group's critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations and that require the Group to make its most difficult and subjective judgments, often as a result of a need to make estimates of matters that are inherently unpredictable. The Bank's management believes that, as of the date of this Base Prospectus, the Group's critical accounting policies where judgment is necessarily applied are those related to expected credit losses, business model assessment, a significant increase in credit risk, the establishment of groups of assets with similar credit risk characteristics, models and assumptions used, establishing the number and relative weightings of forward-looking scenarios and determining the forward looking information relevant to each scenario, probability of default, loss given default, fair value measurement and valuation process, valuation of defined benefit plans and income taxes. Management bases its estimates and judgments upon historical experience and various other factors that the Bank's management believes to be reasonable under the circumstances. The Group's actual results might differ significantly from these estimates under different assumptions, judgments and conditions.

The policies related to the critical accounting judgments are outlined below. All other significant accounting policies that are necessary for a fair presentation of the Group's financial condition and results of operations are presented in Section Three of the notes to the Group's BRSA Financial Statements as of and for the six months ended 30 June 2021 incorporated by reference into this Base Prospectus.

Classification of financial assets

Financial assets comprise cash, contractual rights to obtain cash or another financial asset from or to exchange financial instruments with a counterparty, or capital instrument transactions with a counterparty. They have the ability to affect and diminish the liquidity, credit and interest rate risks in the Group's financial statements. The rules that apply to the classification of financial assets under TFRS 9 are described below.

Classification and measurement of financial assets. According to TFRS 9 requirements, the classification and measurement of a financial asset depends upon: (a) the business model within which such financial asset is managed and (b) the contractual cash flow characteristics of such financial asset. Each of the categories of financials assets under TFRS 9 is described below.

Financial assets measured at fair value through profit or loss: Financial assets measured at fair value through profit or loss are financial assets that are either acquired to generate profit from short-term fluctuations in their prices or are financial assets included in a portfolio that has been created to realise short-term profit. Financial assets measured at fair value through profit or loss are initially recognised at fair value and are thereafter remeasured at their fair value. All gains and losses arising from these valuations are reflected in the Group's income statement.

Financial assets measured at fair value through other comprehensive income: In addition to financial assets within a business model for which there is an intention of holding to collect contractual cash flows and to sell, financial asset with contractual terms for which expected cash flows are solely payments of principal and interest at certain dates are classified as financial assets measured at fair value through other comprehensive income. These financial assets are recognised by adding transaction cost to acquisition cost, the sum of which represents the initial fair value of the financial asset. After their initial recognition, financial assets measured at fair value through other comprehensive income are remeasured at their fair value. Interest income, calculated with the effective interest rate method, arising from financial assets measured at fair value through other comprehensive income and dividend income from equity securities are recorded under the Group's income statement. "Unrealised gains and losses" arising from the difference between the amortised cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the Group's income statement until the acquisition of the financial asset, sale of the financial asset, disposal of the financial asset and impairment of the financial asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" line item under shareholders' equity. When these securities are collected or disposed of, the accumulated fair value differences reflected in the equity are reflected to the Group's income statement.

Equity securities that have a quoted market price in an active market and the fair value of which can be reliably measured are carried at fair value and classified as financial assets measured at fair value through other comprehensive income. Equity securities that do not have a quoted market price in an active market and the fair value of which cannot be reliably measured are carried at cost less provision for impairment.

Financial assets measured at amortised cost: Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortised cost. Financial assets measured at amortised cost are initially recognised at their acquisition cost, including the transaction costs, which reflect the fair value of those financial assets, and then are subsequently recognised at amortised cost by using the effective interest rate method. Interest income obtained from financial assets measured at amortised cost is accounted in the Group's income statement.

Loans: Loans are financial assets that have fixed or determinable payment terms and are not quoted in an active market. Loans are initially recognised at acquisition cost *plus* transaction costs, which represent their initial fair value, and are thereafter measured at amortised cost using the effective interest rate method. Group loans and receivables are initially carried at cost value. Group loans are measured at amortised cost using an internal rate of return. Short-term and long-term loans are grouped as uncollateralised or collateralised, foreign currency-denominated loans are initially recognised in their original currency and revalued thereafter using the applicable foreign exchange buying rate of the Group. Foreign exchange-indexed loans are revalued in Turkish Lira by the applicable foreign exchange buying rate of the Group at the date they are revalued. Repayments of these loans are calculated in Turkish Lira terms by applying the applicable foreign exchange selling rate of the Group at the repayment date. The Group's loans are recognised under the "measured at amortised cost" account.

Explanations for expected credit loss provisions: The main principle of the expected credit loss model is to reflect the general outlook of deterioration or improvement in the credit quality of financial assets. The amount of expected credit losses, known as loss provision or provisions, varies according to the credit risk. There are two measurements according to the general approach:

- a 12-month expected loss provision (Stage 1) applies to all assets unless there is a significant deterioration in the credit quality, and

- a lifetime expectation loss (Stage 2 and Stage 3) is applied when there is a significant increase in credit risk or there is observed evidence of impairment.

Impairment. The Group recognises provisions for impairment of its financial assets in accordance with TFRS 9 requirements according to the Classification of Loans and Provisions Regulation. In this framework, the method of calculating provisions for impairment as set out in accordance with the relevant laws was replaced by the expected credit loss model under TFRS 9. The expected credit loss model includes financial assets that are measured at amortised cost or at fair value in other comprehensive income (such as bank deposits, loans and securities), financial lease receivables that are not measured at fair value through profit or loss, credit commitments and financial guarantee contracts. The guiding principle of the expected credit loss model is to reflect the increase in the credit risk of financial assets or the general view of the recovery thereon. The amount of allowance for an expected credit loss depends upon the degree of the increase in credit risk since the initial allocation of the loan. Expected credit loss for a financial asset is an estimate of the expected credit losses over the life of such financial instrument.

Hedge Accounting

TFRS 9 introduced hedge accounting rules aiming for alignment with risk management activities; *however*, TFRS 9 allows companies to defer application of TFRS 9 hedge accounting rules and instead choose to continue applying hedge accounting provisions of TAS 39 as a policy choice. Accordingly, as of the date of this Base Prospectus, the Bank and its financial subsidiaries continue to apply hedge accounting in accordance with TAS 39.

Implementation of TFRS 16

The Group started to apply the TFRS 16 accounting standard for leases in its consolidated financial statements starting from 1 January 2019. This standard is applied with a modified retrospective approach that recognises the cumulative effect of initially applying this standard at the date of initial application. In this context, comparative information is not restated. The impact of the adoption of TFRS 16 as of 1 January 2019 is presented in the below table:

	Notes	31 December 2018	TFRS 16 Reclassification Effect	TFRS 16 Transition Effect	1 January 2019
			(TL thousands)		
Tangible Assets (net)	(1), (2)	4,494,918	33,008	1,040,667	5,568,593
Other Assets (net)......................	(2)	10,878,526	(33,008)	—	10,845,518
Lease Payables (net)..................	(1), (3)	—	—	1,040,667	1,040,667

Explanations regarding the Notes:

(1) In accordance with TFRS 16, a lease liability and a right-of-use asset amounting to TL 1,040,667 thousand were recognised as of 1 January 2019 for leases that had previously been classified as operating leases.

(2) In accordance with TFRS 16, prepaid rent payments amounting to TL 33,008 thousand that were previously classified under other assets were reclassified under tangible assets as right-of-use.

(3) As of 1 January 2019, the weighted average of the incremental borrowing interest rates applied to Turkish Lira, euro and U.S. dollar lease liabilities presented in the Group's BRSA Financial Statements was 23.6%, 4.2% and 7.0%, respectively.

Impairment of Financial Assets and Expected Credit Losses

The Group's accounting policy for losses/expected credit losses arising from the impairment of customer loans and other financial assets is described in note 3.8 of the Group's BRSA Interim Financial Statements as of and for the nine months ended 30 September 2021. Under TFRS 9, the measurement of impairment losses across all categories of financial assets requires judgment, in particular, the estimation of amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information, which is based upon assumptions for future movement of different economic drivers and how these drivers will affect each other. These estimates are driven by a number of factors, changes in which might result in different levels of allowances. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. See note 3.8 of the Group's BRSA Interim Financial Statements as of and for the nine months ended 30 September 2021 for further discussions about impairment.

The Group reviews its financial assets as of each balance sheet date to determine whether there is objective evidence of impairment. If there is objective evidence that the Group will not be able to collect all amounts due (principal and interest) according to the original contractual terms of a loan, then the loan is considered impaired and classified as an "NPL." Under TFRS 9, Stage 3 (credit-impaired) loans are classified as NPLs. The Group considers an asset to be in default in the following two conditions:

(a) *Objective Default*: There is an objective default if the debt is past due more than 90 days (though, for BRSA reporting purposes, the Group (through 30 September 2021) reported defaults on the basis of the BRSA's extension to 180 days as described in "Turkish Regulatory Environment – Expected Credit Losses"), and/or

(b) *Subjective Default*: There is a subjective default if a debt is unlikely to be paid regardless of the existence of any past-due amount or the number of days past due.

Accordingly, if there is either an objective default or a subjective default, then the Group considers a financial asset to be defaulted and therefore classifies it as a Stage 3 (credit-impaired) financial asset.

The allowance for a loan is measured as the difference between the loan's carrying amount and the present value of expected future cash flows discounted at the loan's original effective interest rate, including any probable foreclosure of collateral. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

Any expected credit loss assessment is performed either on a collective basis or an individual basis. Collective assessment is applied for segments defined on the basis of similar risk characteristics. On the other hand, individual assessment is performed for loans that are individually significant and exhibit specific characteristics. Accordingly, certain commercial and corporate loans are individually assessed. Calculations are performed by discounting the expected cash flows for the individual financial instrument to its present value using the effective interest rate.

See also the discussion under "Significant Factors Affecting the Group's Financial Condition and Results of Operations – Provisions for Expected Credit Losses" for further risk assessment of the Group regarding expected credit losses and "Selected Statistical and Other Information – Summary of Loan Loss Experience" below for classification of the Group's loan portfolio and provisions.

Fair Value of Securities

The Group's securities are classified as either financial assets measured at fair value through profit or loss or investment securities (which include both financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost). Financial assets measured at amortised cost are recorded at their acquisition cost and measured at amortised cost calculated as per the effective interest rate method and financial assets measured at fair value through other comprehensive income (which collectively represented 51.9%, 49.9%, 49.8% and 55.2%, respectively, of the Group's total securities portfolio as of 31 December 2018, 2019 and 2020 and 30 September 2021) were recorded at fair value, with changes in fair value being recorded in income (for the trading portfolio and where there is an impairment or sale of financial assets measured at fair value through other comprehensive income) or shareholders' equity (for mark-to-market movements in financial assets measured at fair value through other comprehensive income).

The following table sets out the distribution of the Group's securities recorded at fair value as of each of the indicated dates (30 September 2021 is not included as interim periods are not required by the BRSA to be reported):

	31 December		
	2018	**2019**	**2020**
	(TL thousands)		
Financial assets measured at fair value through profit or loss (net) (excluding derivative financial assets held for trading)	559,876	1,011,777	3,882,191
Financial assets measured at fair value through other comprehensive income	27,162,953	28,643,529	36,785,565
Total	**27,722,829**	**29,655,306**	**40,667,756**

Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable unrelated party (without any deduction for transaction costs). The Bank estimates fair value using quoted market prices when available. When quoted market prices are not available, the Bank uses a variety of models that include dealer quotes, pricing models and quoted prices from instruments with similar characteristics or discounted cash flows. The determination of fair value when quoted market prices are not available involves judgment by the Bank's senior management as to whether the change in the value of a security is "other-than-temporary."

There is often limited market data to rely upon when estimating the impact of holding a large or aged position. Similarly, judgment must be applied in estimating prices when no external parameters exist. Other factors that can affect the estimates include incorrect model assumptions and unexpected correlations. The imprecision in estimating these factors might affect the amount of revenue or loss recorded for a specific asset or liability. As of 31 December 2020 (as of the date of this Base Prospectus, the latest date for which such information is included in the BRSA Financial Statements), the Group held financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income for which it could not use market prices or observable market inputs to determine fair value representing 0.9% of its total assets.

In addition to the financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income, the Group also monitors the fair value of its financial assets measured at amortised cost to determine whether a decline in their fair value reflects that a write-down would be appropriate, which occurs if such a decline represents a loss event as described in Note 3.8 of Section Three of the notes to the BRSA Interim Financial Statements as of and for the nine months ended 30 September 2021. Factors that are used by the Group's management in determining whether a decline is other than temporary and represents a loss event include the credit quality of the issuer, the conditions of the issuer's operations and business segments, the observed period of the loss, the degree of the loss and management's expectations. The Group calculates expected credit losses at initial recognition for all financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income that have not yet experienced a loss event.

Derivatives

The Group enters into transactions with derivative instruments, including forward contracts, swaps and options in the foreign exchange and capital markets. For example, the Group enters into interest rate swap transactions in order to hedge certain cash flow and currency exposures primarily on floating rate assets and liabilities through converting its floating rate income/payments into fixed rate income/payments. These derivative transactions are considered as effective economic hedges under the Group's risk management policies but (other than transactions in which the hedge accounting relationship is evidenced), if they do not qualify for hedge accounting under the specific provisions of TAS 39, then they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value.

The fair value of derivative instruments is based upon their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, then the fair value of a derivative is estimated using the available market information and the appropriate valuation methodologies; *however*, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realised in a current market exchange.

The fair value of a derivative that is not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract as of the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. All derivatives are carried as assets when fair value is positive and recorded in the balance sheet under "derivative financial assets measured at fair value through profit or loss" and as liabilities when fair value is negative and recorded in the balance sheet under "derivative financial liabilities measured at fair value through profit or loss." For derivatives that do not qualify for special hedge accounting (which are held for trading purposes instead), any gains or losses arising from changes in fair value are taken directly to income for the period as a component of "trading income/losses (net)" whereas gains and losses on derivative financial assets held for cash flow hedges are reflected directly as a separate component of shareholders' equity and reclassified to income when the hedged transaction is settled. TFRS 9 permits to defer application of TFRS 9 hedge accounting and continue to apply hedge accounting in accordance with TAS 39 as a policy choice. Accordingly, the Group has continued to apply hedge accounting in accordance with TAS 39 in this context.

Defined Benefit Plan

As described in "Management – Compensation – Pension Plans," the Bank has a defined benefit plan for its Turkish employees (*i.e.*, the Defined Benefit Fund described therein). As described therein, certain of the assets and obligations of the Defined Benefit Fund are subject to transfer to the Social Security Institution of Turkey (*Türkiye Cumhuriyeti Sosyal Güvenlik Kurumu*) (the "*SSF*") and the SSF is required to collect the unfunded portion (if any) from the employee benefit funds and the banks employing the relevant fund participants, which will be severally liable, in annual instalments to be paid over a period of up to 15 years. If there is a shortfall at the time of the transfer of the Defined Benefit Fund (as determined by the SSF), then the Bank would be liable to make the supplemental payments described above for 15 years.

The excess benefits, which are not subject to the transfer to the SSF, are accounted for in the Group's BRSA Financial Statements in accordance with TAS 19 ("Employee Benefits"). The obligation in respect of this retained portion of the benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, which benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognised past service costs and the fair value of any plan assets are deducted.

Taxation

Income tax is calculated on the basis of taxable income as calculated by applicable tax laws, which differ in certain material respects from the BRSA Principles. The Group's effective tax rate was 23.4% for 2018, 23.6% for 2019, 30.7% for 2020 and 25.0% for the first nine months of 2021 (28.9% for the first nine months of 2020), respectively. In preparing its financial statements, the Group is required to estimate taxes on income, which involves an estimation of current tax expenses together with an assessment of temporary differences resulting from differences between carrying amounts of assets and liabilities for financial reporting purposes and the corresponding bases used in the calculation of taxable profit. The Group's carrying value of deferred tax assets assumes that the Group will be able to generate sufficient future taxable income based upon estimates and assumptions. If these estimates and related assumptions prove to be incorrect, then the Group might be required to record valuation allowances against its deferred tax assets resulting in additional tax expense in its income. The Group evaluates the recoverability of the deferred tax assets on each business day.

Key Performance Indicators

The Group calculates certain ratios in order to measure its performance and compare it to the performance of its main competitors. The following table sets out certain key performance indicators for the Group for the indicated dates/periods, which indicators are (among others) those used by the Group's management to manage its business:

	As of (or for the year ended) 31 December			As of (or for the nine months ended)
Ratios	**2018**	**2019**	**2020**	**30 September 2021**
Net interest margin	6.0%	5.9%	6.1%	6.2%
Net fees and commissions income/expenses as a percentage of total operating profit	18.0%	20.3%	16.8%	18.1%
Cost-to-income ratio	48.7%	54.0%	52.2%	42.7%
Operating expenses as a percentage of average total assets ratio	2.2%	2.4%	2.4%	2.2%
NPL ratio(1)	5.2%	6.8%	4.5%	3.8%
Group's capital adequacy ratios				
Tier 1 capital adequacy ratio(2)	14.2%	15.4%	14.3%	13.6%(4)
Common equity Tier 1 capital adequacy ratio(3)	14.2%	15.4%	14.3%	13.6%(4)
Total capital adequacy ratio(4)	16.5%	17.8%	16.9%	16.1%(4)
Expected credit losses to NPLs	95.2%	89.4%	130.1%	145.9%
Expected credit losses to gross loans	2.6%	2.8%	3.0%	1.2%
Return on average total assets	1.7%	1.5%	1.3%	2.0%
Return on average shareholders' equity	14.8%	12.2%	10.8%	17.9%
Loan-to-deposit ratio	103.1%	96.2%	96.2%	95.9%

(1) As noted elsewhere herein, the BRSA's decision to extend the length of the period of non-payment before a loan or other receivable is considered to be non-performing reduced the NPL ratio in 2020 and for the nine months ended 30 September 2021 and, as a result, the NPL ratios during these periods might not be indicative of the Group's asset quality compared to prior periods and might not be comparable to figures for later periods.
(2) The "Tier 1" capital adequacy ratio is calculated by dividing the "Tier 1" capital (after required deductions) by the aggregate of the value at credit risk, value at market risk and value at operational risk. See "– Capital Adequacy" below.
(3) The common equity Tier 1 capital adequacy ratio is calculated by dividing the "Common Equity Tier 1" capital (after required deductions) by the aggregate of the value at credit risk, value at market risk and value at operational risk. See "– Capital Adequacy" below.
(4) The total capital adequacy ratio is calculated by dividing: (a) the "Tier 1" capital (*i.e.*, its share capital, reserves and retained earnings) *plus* the "Tier 2" capital (*i.e.*, the "supplementary capital," which comprises expected credit losses for Stage 1 and Stage 2 assets, subordinated debt, unrealised gains/(losses) on available-for-sale assets and revaluation surplus (reduced by certain items such as leasehold improvements and intangibles)) and *minus* items to be deducted from capital (the "deductions from capital," which comprises items such as unconsolidated equity interests in financial institutions and assets held for resale but held longer than five years), by (b) the aggregate of the risk-weighted assets and off-balance sheet exposures (*i.e.*, value at credit risk), value at market risk and value at operational risk. See "Capital Adequacy" below.
(5) On 17 June 2021 (as revised on 16 September 2021), the BRSA announced that capital adequacy ratio calculations until such date as determined by the BRSA may be calculated using the arithmetic mean of the Central Bank's foreign exchange buying rates during the previous 252 business days as of the calculation date. If such measure had not been taken into account, then the Group's Tier 1, common equity Tier 1 and total capital adequacy ratios would decline to 13.2%, 13.2% and 15.7% respectively, as of 30 September 2021 (14.6%, 14.6%, and 17.3%, respectively, with respect to the Bank).

The calculation of the Group's net interest margin for the indicated periods is as follows:

	2018	2019	2020	Nine months ended 30 September 2021
		(TL thousands, except percentages)		
Net interest income	20,876,933	20,673,425	25,392,568	23,862,718
Average interest-earning assets	345,700,240	349,208,681	417,634,638	512,008,090
Nonannualised net interest margin	**6.0%**	**5.9%**	**6.1%**	**4.7%**
Annualisation factor	NA	NA	NA	1.34
Net interest margin	**6.0%**	**5.9%**	**6.1%**	**6.2%**

The calculation of the Group's net fees and commissions income/expenses as a percentage of total operating profit for the indicated periods is as follows:

	2018	2019	2020	Nine months ended 30 September 2021
		(TL thousands, except percentages)		
Net fees and commissions income/expenses	5,102,687	6,273,573	6,587,665	6,489,928
Total operating profit	28,358,989	30,828,996	39,225,428	35,785,533
Net fees and commissions income/expenses as a percentage of total operating profit	**18.0%**	**20.3%**	**16.8%**	**18.1%**

The calculation of the Group's cost-to-income ratio for the indicated periods is as follows:

	2018	2019	2020	Nine months ended 30 September 2021
	(TL thousands, except percentages)			
Net interest income	20,876,933	20,673,425	25,392,568	23,862,718
Net fees and commissions income/expenses	5,102,687	6,273,573	6,587,665	6,489,928
Net trading income/losses	(1,145,747)	(1,806,062)	702,894	(3,224,052)
Dividend income	7,691	11,276	22,178	134,097
Other income	3,517,425	5,676,784	6,550,123	8,522,842
Provisions for loans, provisions for marketable securities and general reserves	(10,347,780)	(11,741,709)	(16,480,950)	(12,096,878)
Total income	**18,011,209**	**19,087,287**	**22,774,478**	**23,688,655**
Personnel expenses	3,645,278	4,187,991	4,419,743	3,974,748
Other operating expenses	5,123,707	6,121,085	7,467,095	6,148,266
Total cost	**8,768,985**	**10,309,076**	**11,886,838**	**10,123,014**
Cost-to-income ratio	**48.7%**	**54.0%**	**52.2%**	**42.7%**

The calculation of the Group's operating expenses as a percentage of average total assets for the indicated periods is as follows:

	2018	2019	2020	Nine months ended 30 September 2021
	(TL thousands, except percentages)			
Personnel expenses	3,645,278	4,187,991	4,419,743	3,974,748
Other operating expenses	5,123,707	6,121,085	7,467,095	6,148,266
Operating expenses	**8,768,985**	**10,309,076**	**11,886,838**	**10,123,014**
Average total assets	400,060,338	421,330,642	502,414,042	602,490,060
Nonannualised operating expenses as a percentage of average total assets	**2.2%**	**2.4%**	**2.4%**	**1.7%**
Annualisation factor	NA	NA	NA	1.34
Operating expenses as a percentage of average total assets	**2.2%**	**2.4%**	**2.4%**	**2.2%**

The calculation of the Group's NPL ratio for the indicated dates is as follows (as noted elsewhere herein, the BRSA's decision to extend the length of the period of non-payment before a loan or other receivable is considered to be non-performing reduced the NPL ratio in 2020 and for the nine months ended 30 September 2021 and, as a result, the NPL ratios during these periods might not be indicative of the Group's asset quality compared to prior periods and might not be comparable to figures for later periods):

	As of 31 December			As of
	2018	2019	2020	30 September 2021
	(TL thousands, except percentages)			
Loans	251,808,344	266,610,530	344,550,094	410,439,807
NPLs	13,753,384	19,510,386	16,118,312	16,376,783
Total loans	**265,561,728**	**286,120,916**	**360,668,406**	**426,816,590**
NPL ratio	**5.2%**	**6.8%**	**4.5%**	**3.8%**

The calculation of the Group's allowance for expected credit losses to NPLs for the indicated dates is as follows:

	As of 31 December			As of 30 September
	2018	2019	2020	2021
	(TL thousands, except percentages)			
Expected credit losses (Stage 3)	8,124,589	12,182,934	10,215,084	11,271,604
Expected credit losses (Stages 1 & 2)	4,969,439	5,260,715	10,753,679	12,624,316
Total provisions	**13,094,028**	**17,443,649**	**20,968,763**	**23,895,920**
NPLs	13,753,384	19,510,386	16,118,312	16,376,783
Expected credit losses to NPLs	**95.2%**	**89.4%**	**130.1%**	**145.9%**

The calculation of the Group's return on average shareholders' equity for the indicated periods is as follows:

	2018	2019	2020	Nine months ended 30 September 2021
	(TL thousands, except percentages)			
Net profit/(loss)	6,706,605	6,241,390	6,385,163	9,071,591
Average shareholders' equity	45,164,334	51,202,307	59,152,130	67,582,846
Nonannualised return on average shareholders' equity	**14.8%**	**12.2%**	**10.8%**	**13.4%**
Annualisation factor	NA	NA	NA	1.34
Return on average shareholders' equity	**14.8%**	**12.2%**	**10.8%**	**17.9%**

The calculation of the Group's return on average total assets for the indicated periods is as follows:

	2018	2019	2020	Nine months ended 30 September 2021
	(TL thousands, except percentages)			
Net profit/(loss)	6,706,605	6,241,390	6,385,163	9,071,591
Average total assets	400,060,338	421,330,642	502,414,042	602,490,060
Nonannualised return on average total assets	**1.7%**	**1.5%**	**1.3%**	**1.5%**
Annualisation factor	NA	NA	NA	1.34
Return on average total assets	**1.7%**	**1.5%**	**1.3%**	**2.0%**

The calculation of the Group's expected credit losses to gross loans for the indicated dates is as follows:

	As of 31 December			As of
	2018	2019	2020	30 September 2021
	(TL thousands, except percentages)			
Expected credit losses (Stage 3)	5,012,604	6,918,054	4,680,637	3,395,476
Expected credit losses (Stages 1 & 2)	4,245,176	4,573,655	9,650,313	6,751,402
Total provision expenses	**9,257,780**	**11,491,709**	**14,330,950**	**10,146,878**
Collections	(2,464,810)	(4,166,567)	(4,579,702)	(6,622,034)
Net provision expense	**6,792,970**	**7,325,142**	**9,751,248**	**3,524,844**
Average total loans	262,295,432	260,561,591	320,989,126	388,668,663
Nonannualised expected credit losses to gross loans	**2.6%**	**2.8%**	**3.0%**	**0.9%**
Annualisation factor	NA	NA	NA	1.34
Expected credit losses to gross loans	**2.6%**	**2.8%**	**3.0%**	**1.2%**

Analysis of Results of Operations for the nine months ended 30 September 2020 and 2021 and the years ended 31 December 2018, 2019 and 2020

As of 30 September 2021, the Bank had the following market shares among commercial banks (each as measured on a bank-only basis): (a) based upon BRSA weekly data, 10.2% of performing loans, 13.1% of consumer loans (including credit cards), 9.5% of consumer mortgage loans, 18.0% of consumer credit cards, 10.3% in customer deposits and 14.2% in customer demand deposits, and (b) based upon BRSA monthly data, 9.5% of total assets, 14.6% in net fees and commissions and 19.4% in net income.

The following summary financial and operating data as of and for the years ended 31 December 2018, 2019 and 2020 and the nine months ended 30 September 2020 and 2021 have been extracted from the Group's BRSA Annual Financial Statements and BRSA Interim Financial Statements without material adjustment. This information should be read in conjunction with such BRSA Financial Statements (including the notes therein).

The table below summarises the Group's income statement and (after the change to the presentation of the financial statements as per new rules introduced by the BRSA) statement of profit or loss for the indicated periods, the components of which are described in greater detail in the following sections:

				Nine months ended 30 September	
	2018	**2019**	**2020**	**2020**	**2021**
			(*TL thousands*)		
Interest income	41,246,027	42,045,625	39,393,261	28,203,500	41,318,041
Interest expense	(20,369,094)	(21,372,200)	(14,000,693)	(9,922,059)	(17,455,323)
Net interest income	**20,876,933**	**20,673,425**	**25,392,568**	**18,281,441**	**23,862,718**
Net fees and commissions income/expenses	5,102,687	6,273,573	6,587,665	4,865,513	6,489,928
Dividend income	7,691	11,276	22,178	20,118	134,097
Net trading income/losses (net)	(1,145,747)	(1,806,062)	702,894	2,321,948	(3,224,052)
Other operating income	3,517,425	5,676,784	6,550,123	5,395,362	8,522,842
Total operating profit	**28,358,989**	**30,828,996**	**39,255,428**	**30,884,382**	**35,785,533**
Expected credit losses(1)	(10,836,246)	(12,347,652)	(18,159,994)	(14,994,411)	(13,567,903)
Other operating expenses	(8,768,985)	(10,309,076)	(11,886,838)	(8,518,619)	(10,123,014)
Profit/(loss) before taxes	**8,753,758**	**8,172,268**	**9,208,596**	**7,371,352**	**12,094,616**
Provision for taxes	(2,047,153)	(1,930,878)	(2,823,433)	(2,131,325)	(3,023,025)
Net profit/(loss)	**6,706,605**	**6,241,390**	**6,385,163**	**5,240,027**	**9,071,591**
Attributable to equityholders of the Bank	6,641,652	6,164,914	6,305,090	5,183,510	8,983,541
Attributable to minority interests	64,953	76,476	80,073	56,517	88,050

(1) Includes other provisions.

Results of Operations for the nine months ended 30 September 2020 and 2021

Net Profit/(Loss)

The Group's net profit/(loss) for a period is calculated by reducing its total operating profit for such period by expected credit losses on loans and other receivables, personnel expenses, other operating expenses and provision for taxes for such period. The Group's net profit/(loss) for the first nine months of 2021 was TL 9,071,591 thousand, increasing by 73.1% from TL 5,240,027 thousand for the same period of 2020. The net profit/(loss) for these periods was affected by certain exceptional items, which are quantified in the table below:

	Nine months ended 30 September	
	2020	**2021**
Exceptional items	*(TL thousands)*	
Sale of assets	(88,237)	(305,336)
Other income	-	-
General reserves(1)	1,830,000	1,950,000
Tax effects of the items listed above	19,412	76,334
Total impact on net profit/(loss)	**1,761,175**	**1,720,998**
Net profit/(loss)	5,240,027	9,071,591
Net profit/(loss) adjusted for exceptional items	**7,001,202**	**10,792,589**

(1) See "Provisions for Expected Credit Losses" above. As such general reserves are not permitted under the BRSA Principles, the Group's independent auditors noted this departure in the Group's BRSA Financial Statements by qualifying their audit opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional provisions are not required, then they might elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

Net profit/(loss) adjusted for exceptional items increased by 54.2% in the first nine months of 2021 from the same period of the prior year, which change was mainly due to lower net provisions and higher fee income.

The following sections describe the components of the Group's net profit/(loss) (*i.e.*, total operating profit, other operating expenses and provision for taxes) in greater detail.

Total Operating Profit

The Group's total operating profit is comprised of its net interest income, net fees and commissions income/expenses, dividend income, net trading income/losses and other operating income. Each of these is described in greater detail below. The following table identifies the share that these categories have represented in the Group's total operating profit before taxes for the indicated periods:

	Nine months ended 30 September	
	2020	**2021**
Net interest income	59.2%	66.7%
Net fees and commissions income/expenses	15.8%	18.1%
Dividend income	0.1%	0.4%
Net trading income/losses	7.5%	(9.0)%
Other operating income	17.4%	23.8%

Net Interest Income

The Group's net interest income is the difference between its interest income and its interest expense (each described below) and is the principal area of income for the Group. As a result, the differential between the interest rates that the Group receives on interest-earning assets and the interest rates that it pays on interest-bearing liabilities (*i.e.*, its average spread) and the volume of such assets and liabilities have the most significant impact on the Group's results of operations. This net interest income represented 59.2% and 66.7% of the Group's total operating profit in the first nine months of 2020 and 2021, respectively.

Net interest income amounted to TL 23,862,718 thousand in the first nine months of 2021, which was a 30.5% increase from TL 18,281,441 thousand in the same period of the prior year. There has been a general decline in margins in the Turkish market from 2010 onwards as a result of increased competition across all sectors of the Group's business. The decline in net interest income in the first nine months of 2021 was mainly due to higher funding costs; *however*, the Bank's managements expects that a normalisation in funding costs will occur in the last quarter of 2021 that (when combined with the maturity of many lower yielding Turkish Lira loans by the end of the second quarter of 2021 and the increasing payments on CPI-linked securities due to higher inflation) will be supportive for net interest income in the last quarter of 2021.

The Group's net interest margin was 6.2% in the first nine months of 2021, which was a slight increase from the 6.1% for full year 2020. This decline resulted primarily from higher funding costs due to the prevailing high Central Bank interest rate driven by inflationary pressures. Due to duration mismatch, the Bank's management expects that the impact of upward loan repricing on loan yields will be more impactful in the last quarter of 2021. See also "– Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rate Environment."

Interest Income. Interest income is the interest (including the amortisation of interest-earning assets purchased at a discount and the interest component of lease receivables entered into for margin management purposes) and certain loan-related fees (such as closing fees received on project finance loans) received by the Group on its interest-earning assets, principally loans and debt securities. Interest income is a function of both the volume of interest-earning assets and the yield that the Group earns on these holdings. In the first nine months of 2021, the Group's interest income increased by 46.5% to TL 41,318,041 thousand from TL 28,203,500 thousand for the same period of 2020. The following table sets out the interest-earnings on the Group's interest-earning assets during the indicated periods:

	Nine months ended 30 September	
	2020	**2021**
	(TL thousands)	
Interest income on loans	22,774,792	31,547,908
Interest income on reserve deposits	34,277	620,898
Interest income on banks	186,894	165,602
Interest income on money market transactions	354,094	1,365,254
Interest income on securities portfolio	4,220,184	6,740,505
Financial lease income	370,009	498,892
Other interest income	263,250	378,982
Total interest income	**28,203,500**	**41,318,041**

As noted above, interest income is a function of both the volume of, and yield earned on, the Group's interest-earning assets. In the first nine months of 2021 compared to the same period of the previous year, the change in interest income was principally due to a 38.5% increase in "interest income on loans" resulting largely from increasing loan volumes and improved yields through the Group's selective lending strategy on more profitable products. During the period, interest income on loans increased due in large part to increasing yields on loans, while interest income from securities also increased significantly due to higher interest rates and increased income on CPI-linked securities. As a result, total interest income in the first nine months of 2021 increased by 46.5% when compared to the same period of 2020.

The following table sets forth the average yield earned by the Bank (daily average) and the Group (quarterly average) on certain interest-earning assets for the indicated periods.

	Nine months ended 30 September	
	2020	**2021**
Total average yield for the Bank	**15.76%**	**19.17%**
Deposits at banks	2.72%	10.27%
Investments in securities	10.93%	15.15%
Loans and advances to customers	11.07%	12.56%
Total average yield for the Group	**9.04%**	**10.73%**

The increase in the yield earned by the Bank in the first nine months of 2021 compared to the same period of the previous year primarily resulted from the Bank's strategy to improve net interest margin and focus on income from core banking operations and rising interest rates. Due to duration mismatch, the Bank's management expects that the impact of upward loan repricing on loan yields will be more impactful in the last quarter of 2021.

Interest Expense. Interest expense is the interest and certain loan-related fee expenses (such as fees paid on syndicated loans) of the Group on its interest-bearing liabilities, principally time deposits. As with interest income, interest expense is a function of both the volume of interest-bearing liabilities and the interest rates that the Group pays on these liabilities. In the first nine months of 2021, the Group's interest expense increased by 75.9% to TL 17,455,323 thousand from TL 9,922,059 thousand in the same period of 2020. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during the indicated periods:

	Nine months ended 30 September	
	2020	**2021**
	(TL thousands)	
Interest on deposits	6,332,565	14,317,938
Interest on funds borrowed	1,134,605	778,523
Interest on money market transactions	269,156	273,614
Interest on securities issued	1,707,938	1,946,346
Lease interest expense	110,601	92,937
Other interest expenses	367,194	45,965
Total interest expense	**9,922,059**	**17,455,323**

The increase in the Group's interest expense in the first nine months of 2021 as compared to the same period of the previous year was principally in line with the increase in the size of its funding base and interest rates. As noted above, changes in the interest rates that the Group pays on its interest-bearing liabilities significantly affect the Group's interest expense. As the Group's interest-bearing deposits represent the largest portion of its liabilities (36.1% and 37.5%, respectively, as of 30 September 2020 and 2021), the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense. The following table sets forth the average interest rates paid by the Bank (daily average) and the Group (quarterly average) on interest-bearing deposits and other interest-bearing liabilities for the indicated periods:

	Nine months ended 30 September	
	2020	**2021**
Total interest rates for the Bank	**5.01%**	**8.04%**
Deposits	4.53%	8.89%
Short-term debt (one year or less)	6.43%	4.79%
Long-term debt	6.17%	5.24%
Repurchase agreements	7.67%	8.62%
Total interest rates for the Group	**4.81%**	**7.54%**

The change in interest rates in 2021 when compared to 2020 was primarily a result of the increase in interest rates by the Central Bank starting in August 2020; *however*, this might decline from the fourth quarter of 2021 due to the Central Bank's rate cuts in September, October and November 2021. See "- Financial Condition - Liabilities" below.

Net Fees and Commissions Income/Expenses

The second largest component of the Group's operating income is its net fees and commissions income/(expenses). The Group earns fee and commission income on both capital-intensive products (such as origination fees on cash loans and fees for credit cards, letters of credit and guarantees) and capital-free products (such as money transfers, payment system fees, investment advice and brokerage fees in respect of debt and equity trading). The principal drivers for fee and commission income are money transfer and payment system fees. The Bank's management expects the contribution of fee and commission income to the Group's overall operating income to increase, particularly with the expected growth in its money transfer and payment system fees; *however*, the Turkish government periodically imposes limits or prohibitions on fees and commissions that a bank may charge for certain banking services, and the adoption of any such limits or prohibitions might result in lower fees and commissions income for the Group.

The Group's net fees and commissions income/expenses for the first nine months of 2021 was TL 6,489,928 thousand, an increase of 33.4% from TL 4,865,513 thousand for the same period of the prior year. This change was primarily driven by an increase in payment systems fees (merchant fees are linked to prevailing interest rates in the market and the higher interest rate environment supported these fees), money transfer fees resulting from increasing digitalisation and lending-related fees arising from increasing economic activity.

The following table sets out the components of the Group's fees and commissions income and expenses for the indicated periods:

	Nine months ended 30 September	
	2020	**2021**
	(TL thousands)	
Fees and commissions received	**6,041,461**	**8,644,598**
Non-cash loans	564,351	773,337
Others	5,477,110	7,871,261
Fees and commissions paid	**1,175,948**	**2,154,670**
Non-cash loans	15,684	23,225
Others	1,160,264	2,131,445
Net Fees and Commissions Income	**4,865,513**	**6,489,928**

Dividend Income

Dividend income, which is principally received from the Group's securities portfolio and certain small equity investments, is a very small portion of the Group's income. Dividend income of TL 20,118 thousand in the first nine months of 2020 and TL 134,097 thousand in the same period of 2021.

Net Trading Income/Losses

Net trading income/losses represent trading account income/losses, income/losses from derivative financial instruments and foreign exchange gain/losses. In the first nine months of 2020, the Group experienced a net trading income of TL 2,321,948 thousand, compared with net trading losses of TL 3,224,052 thousand in the same period of 2021. These net trading losses in 2021 resulted from foreign exchange losses and losses from derivative financial instruments experienced due to the high swap funding cost of the Group in Turkish Lira. Swap funding is used by the Bank opportunistically to manage its funding cost.

The following table sets out the categories of the Group's net trading income/losses during the indicated periods:

	Nine months ended 30 September	
	2020	2021
	(TL thousands)	
Trading Income		
Trading account income	3,335,084	2,630,731
Derivative financial instruments	13,225,967	11,884,260
Foreign exchange gain	88,829,174	154,295,460
Total trading income	**105,390,225**	**168,810,451**
Trading Losses		
Trading account losses	(1,253,989)	(1,543,776)
Derivative financial instruments	(14,669,040)	(16,524,035)
Foreign exchange losses	(87,145,248)	(153,966,692)
Total trading losses	**(103,068,277)**	**(172,034,503)**
Net trading income/losses	**2,321,948**	**(3,224,052)**

Other Operating Income

Other operating income includes various additional sources of income, including the collection or reversal of previous periods' provisions (including from the sale of NPLs), banking services-related costs recharged to customers, premium income from insurance business and income on custody services. Total other operating income was TL 8,522,842 thousand in the first nine months of 2021, increasing by 58.0% from TL 5,395,362 thousand in the same period of 2020. The following table sets out the Group's other operating income by category for the indicated periods:

	Nine months ended 30 September	
	2020	2021
	(TL thousands)	
Prior Year Reversals	3,968,876	6,622,034
Stage 1	*1,215,870*	*2,905,234*
Stage 2	*1,455,485*	*2,210,777*
Stage 3	*1,194,527*	*1,340,815*
Others	*102,994*	*165,208*
Income from sale of assets	88,237	305,336
Others	1,338,249	1,595,472
Other operating income	**5,395,362**	**8,522,842**

During the first nine months of 2020 and 2021, TL 61,370 thousand and TL 140,915 thousand, respectively, in NPLs of the Group were sold for a consideration of TL 21,475 thousand and TL 179,735 thousand, respectively. After reflecting the related provisions that had been provided for in prior periods, gains from these sales amounting to TL 12,830 thousand and TL 177,403 thousand were recognised in the first nine months of 2020 and 2021, respectively, under "other operating income."

Provision for Losses on Loans or other Receivables

The Group's results might be materially negatively affected by provisions that the Group takes for its ECLs on financial assets and loans measured at amortised cost, financial assets measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts not measured at fair value through profit or loss based upon TFRS 9. The Group applies an impairment model that has three stages based upon the changes in credit quality since initial recognition. ECLs are required to be measured through a loss allowance:

(a) at an amount equal to 12-month ECL (*i.e.*, an ECL that results from default events on the financial instrument that are possible within 12 months after the reporting date) (referred to as Stage 1), or

(b) for lifetime ECL (*i.e.*, an ECL that results from all possible default events over the life of the financial instrument) (referred to as Stage 2 and Stage 3).

A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments within the scope of impairment, ECLs are measured at an amount equal to the 12-month ECL.

The following table sets out the Group's expected credit losses and related impairments by category during the indicated periods:

	Nine months ended 30 September	
	2020	**2021**
	(TL thousands)	
Expected credit losses	**11,288,066**	**10,146,878**
12 month ECL (Stage 1)	*2,407,481*	*1,828,545*
Significant increase in credit risk (Stage 2)	*4,830,742*	*4,922,857*
Impaired credits (Stage 3)	*4,049,843*	*3,395,476*
Impairment losses on securities	**61,062**	**62,055**
Financial assets measured at fair value through profit or loss	*58,952*	*61,736*
Financial assets measured at fair value through other comprehensive income	*2,110*	*319*
Impairment losses on associates, subsidiaries and joint-ventures	**293,323**	**87,241**
Associates	*293,323*	-
Subsidiaries	-	*87,241*
Joint-ventures (business partnership)	-	-
Others[(1)]	**3,351,960**	**3,271,729**
Total	**14,994,411**	**13,567,903**

(1) Includes general reserves amounting to TL 1,830,000 thousand in 2020 and TL 1,950,000 thousand in 2021.

The following table sets out the Group's expected credit losses for loans during the first nine months of both 2020 and 2021:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
		(TL thousands)		
Balances at beginning of period (1 January 2020)	**1,227,132**	**4,033,583**	**12,182,934**	**17,443,649**
Additions during the period (+)	2,311,476	5,475,912	1,834,631	9,622,019
Disposal (-)	(2,358,260)	(2,586,299)	(1,173,663)	(6,118,222)
Debt sale (-)	-	-	(52,725)	(52,725)
Write-offs (-)	-	-	(274,949)	(274,949)
Transfer to Stage 1	812,294	(808,464)	(3,830)	-
Transfer to Stage 2	(290,022)	300,590	(10,568)	-
Transfer to Stage 3	(2,517)	(395,135)	397,652	-
Foreign currency differences	177,008	928,015	1,457,069	2,562,092
Balance as of 30 September 2020	**1,877,111**	**6,948,202**	**14,356,551**	**23,181,864**
Balances at beginning of period (1 January 2021)	**2,189,211**	**8,564,468**	**10,215,084**	**20,968,763**
Additions during the period (+)	2,753,053	6,268,513	1,848,562	10,870,128
Disposal (-)	(3,797,951)	(3,607,314)	(1,068,798)	(8,474,063)
Debt sale (-)	-	(8,191)	(130,392)	(138,583)
Write-offs (-)	-	-	(1,190,535)	(1,190,535)
Transfer to Stage 1	1,319,899	(1,313,886)	(6,013)	-
Transfer to Stage 2	(482,245)	508,178	(25,933)	-
Transfer to Stage 3	(1,289)	(795,542)	796,831	-
Foreign currency differences	91,645	935,767	832,798	1,860,210
Balance as of 30 September 2021	**2,072,323**	**10,551,993**	**11,271,604**	**23,895,920**

The Group's NPL ratio was 3.8% as of 30 September 2021 as compared to 4.5% as of 31 December 2020, which decline was principally the result of write-downs during the first nine months of 2021 as well as the continuing temporary impact of the BRSA's forbearance described previously.

The effect of NPL sales on the Group's NPL ratio was to reduce it by 0.02% as of 30 September 2020 and 0.03% as of 30 September 2021 (*i.e.*, the NPL ratio for such dates would have been higher by such amount had such sales not occurred).

The Group also reflects on its balance sheet a category of "loans under follow-up," which are loans transferred to Stage 2 due to a significant increase in credit risk since initial recognition based upon TFRS 9. This amount was TL 62,449,709 thousand as of 30 September 2021 (as compared to TL 59,278,424 thousand as of 31 December 2020), portions of which amount might later either be transferred to Stage 1 (*i.e.*, when a loan becomes a loan in good standing) or be transferred to Stage 3 and treated as an NPL (and have related specific provisions) should a loan become non-performing.

The Bank's management increased the general reserves by TL 1,830,000 thousand in the first nine months of 2020 and by TL 1,950,000 thousand in the first nine months of 2021, in both cases due to the possible effects of negative circumstances that might arise in the economy or in market conditions. The BRSA Interim Financial Statements were qualified with respect to general reserves that were allocated by the Group's management. The provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that may arise from any changes in the economy or market conditions. See "Risk Factors – Risks Relating to the Group and its Business – Other Group-Related Risks – Audit Qualification."

Write-off policy

The general policy of the Bank regarding the write-off process for loans is to write-off a loan that has, during the legal follow-up process, been determined to be uncollectible. As information regarding write-offs is only reported by the Group on an annual basis, see: "Results of Operations for the years ended 31 December 2018, 2019 and 2020 - Write-off Policy."

An amendment to the Classification of Loans and Provisions Regulation entered into force on 27 November 2019, which amendment enables Turkish banks to write down and move off their balance sheets the portion of a loan that is classified as a "Group V" loan (Loans Considered as Losses) if it cannot reasonably be expected to be recovered. As a result, the Bank performs both objective and subjective assessments of its Group V loans to determine whether there is such a reasonable expectation.

In accordance with TFRS 9, provisions are provided for the portion of a loan that is not expected to be recovered. Accordingly, a loan that is classified in "Group V" and cannot reasonably be expected to be recovered (after considering the opinion of the department responsible) from the collection of such loan and/or the provisions provided for such loan can be subject to this write-down operation. In addition, a loan that meets the conditions set out below is assessed by the Bank as having lost its ability to be collected and thus can be written-down based upon the opinion of the relevant department: (a) such loan has been monitored as a non-performing loan for at least 18 months, (b) there has not been any collection on such loan in the last 6 months and (c) there not being any tangible collateral other than a pledge over movable assets.

Personnel Expenses

Personnel expenses include the salaries and wages that the Group pays to its employees. Personnel expenses increased by 21.7% to TL 3,974,748 thousand in the first nine months of 2021 from TL 3,267,216 thousand in the same period of 2020. This increase was principally the result of higher wage levels due to salary increases driven by inflation. The Group's management anticipates that the currently elevated level of Turkish inflation will result in higher personnel expenses in the remainder of 2021 and throughout 2022.

Other Operating Expenses

The Group's other operating expenses include traditional business expenses such as depreciation and amortisation expenses on tangible and intangible assets and operational lease-related expenses. Other operating expenses in the first nine months of 2021 increased by 17.1% to TL 6,148,266 thousand from TL 5,251,403 thousand in the same period of the prior year, which change principally resulted from an increase in "other expenses," which includes various normal course expenses such as legal expenses and utility charges, none of which is individually material.

As noted above, as a banking institution, the Group's management focuses closely on the Group's efficiency and (within the context of maintaining the quality of its services) seeks to decrease its cost-to-income ratio. The Group's cost-to-income ratio (which includes both personnel expenses as well as other operating expenses) decreased from 52.2% in full year 2020 to 42.7% in the first nine months of 2021, which change resulted primarily from a decline in net provisioning expense and higher net interest income and fee and commission income. A similar ratio monitored by the Group is its operating expenses to average total assets ratio, which ratio was 2.2% during the first nine months of 2021, decreasing from 2.4% in full year 2020. The change in the cost-to-income ratio in 2021 was largely due to increased revenues (resulting particularly from improvements in net fees and commissions) and lower provisioning.

The following table sets out the components of the Group's other operating expenses for the indicated periods:

	Nine months ended 30 September	
	2020	**2021**
	(TL thousands)	
Reserve for employee termination benefits	89,528	123,655
Impairment losses on tangible assets	100,809	14
Depreciation expenses of tangible assets	292,216	322,770
Impairment losses on intangible assets	-	-
Amortisation expenses of intangible assets	118,026	133,054
Impairment losses on assets to be disposed	5,343	2,506
Depreciation expenses of right-of-use assets	256,356	234,716
Impairment losses on assets held for sale and discontinued assets	598	345
Operational lease-related expenses	140,597	160,525
Repair and maintenance expenses	58,375	74,393
Advertisement expenses	97,541	151,369
Loss on sale of assets	2,972	6,886
Other expenses[(1)]	2,897,092	3,523,564
Others[(2)]	1,191,950	1,414,469
Other operating expenses	**5,251,403**	**6,148,266**

(1) Other expenses includes various normal course expenses such as legal expenses, utility charges, none of which is individually material. See note 5.4.7 in the Group's BRSA Financial Statements as of and for the nine months ended 30 September 2021.

(2) Others includes SDIF-related expenses, repayments of certain fees and commissions to customers and insurance business-claim losses. See note 5.4.7 in the Group's BRSA Financial Statements as of and for the nine months ended 30 September 2021.

Provision for Taxes

The Group is subject to different forms of income taxation in each market in which it has operations, although the principal driver is Turkish taxation of the Group's income. Taxation and duties other than on income are included in operating expenses whereas taxation on income is applied to profit/(loss) before taxes in order to determine the Group's net operating profit/(loss) after taxes. The provision for taxes for a particular period is a combination of the current tax charge, which is the tax that is calculated to apply to the taxable income for such period, and deferred tax charges/(credits), which reflect the Group's calculation of taxes that it might be required to pay in the future as a result of certain events (*e.g.*, mark-to-market increases in the valuation of financial assets, which would result in the payment of taxes should such financial asset be sold).

Income taxation charges for the first nine months of 2021 amounted to TL 3,023,025 thousand, which was a 41.8% increase from TL 2,131,325 thousand in the same period of 2020. The Group's taxation charges during the first nine months of 2021 included a deferred tax credit of TL 124,544 thousand whereas in the same period of 2020 the deferred tax credit was TL 517,359 thousand, both as a result of improvements in mark-to-market valuation of derivative financial instruments. The change in the Group's taxation charge in the first nine months of 2021 as compared to the same period of 2020 reflects the change in the corporate tax rate described in the next paragraph.

The corporate tax rate, which had been 20% since 1 January 2006, was temporarily increased to 22% for 2018, 2019 and 2020 but was then further increased to 25% and 23% for fiscal periods that start in 2021 and 2022, respectively. The Group's effective income tax rate (calculated based upon its reported provision for taxes *divided by* its profit/(loss) before taxes) for the first nine months of 2020 and 2021 was 28.9% and 25.0%, respectively. The deviations from the applicable tax rate in these periods were due to both general reserves and Stages 1 and 2 expected credit losses being not deductible based upon the BRSA Principles. In line with the TAS 12 standard for income taxes, deferred tax assets and liabilities are to be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, in each case based upon the tax rates (and tax laws) that have been enacted (or substantively enacted) by the end of the reporting period. The Group thus has made deferred tax calculations according to the rates of 22%, 23% or 25%, as applicable, corresponding to the maturity of the assets and liabilities.

Taxes on income from the Group's non-Turkish operations were immaterial in the first nine months of both 2020 and 2021.

Results of Operations for the years ended 31 December 2018, 2019 and 2020

Net Profit/(Loss)

The Group's net profit/(loss) for 2018 was TL 6,706,605 thousand, decreasing by 6.9% to TL 6,241,390 thousand in 2019 and then increasing by 2.3% to TL 6,385,163 thousand in 2020. The net profit/(loss) for these three years was affected by certain exceptional items, which are quantified in the table below:

	2018	2019	2020
Exceptional items		*(TL thousands)*	
Sale/liquidation of equity participations and other assets..	—	(15,782)	—
Other income[(1)]	—	83,000	—
General reserves[(2)]	1,090,000	250,000	2,150,000
Total impact on net profit/(loss)	**1,090,000**	**317,218**	**2,150,000**
Net profit/(loss)	6,706,605	6,241,390	6,385,163
Net profit/(loss) adjusted for exceptional items	**7,796,605**	**6,558,608**	**8,535,163**

(1) This only includes an administrative fee reversal.

(2) See "Provisions for Expected Credit Losses" above. As such general reserves are not permitted under the BRSA Principles, the Group's independent auditors noted this departure in the Group's BRSA Financial Statements by qualifying their audit opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional provisions are not required, then they might elect to reverse such reserves in future periods, which would have the result of increasing income in such period.

Net profit/(loss) adjusted for exceptional items increased by 30.1% in 2020 from 2019, which itself decreased by 15.9% from 2018. In 2019, the decrease was mainly due to lower interest earned on CPI-linked securities. In 2020, the change was primarily driven by an increase in net trading income (excluding swap costs) as well as higher net interest income, which offset higher provision costs.

Total Operating Profit

As noted above, the Group's total operating profit is comprised of its net interest income, net fees and commissions income/expenses, dividend income, net trading income/losses and other operating income. The following table identifies the share that these categories have represented in the Group's total operating profit before taxes for each of the indicated years:

	2018	2019	2020
Net interest income	73.6%	67.1%	64.7%
Net fees and commissions income/expenses	18.0%	20.3%	16.8%
Dividend income	0.0%	0.0%	0.1%
Net trading income/losses	(4.0)%	(5.9)%	1.8%
Other operating income	12.4%	18.5%	16.6%

Net Interest Income

Net interest income represented 73.6%, 67.1% and 64.7% of the Group's total operating profit in 2018, 2019 and 2020, respectively. Net interest income amounted to TL 25,392,568 thousand in 2020, which was a 22.8% increase from TL 20,673,425 thousand in 2019, which itself was a 1.0% decrease from TL 20,876,933 thousand in 2018. There has been a general decline in margins in the Turkish market from 2010 onwards as a result of increased competition across all sectors of the Group's business; *however*, the Group's net interest margins (as further described below) and volumes, especially in lending activities (as further described in "Assets - Loans" below), increased in 2019 and 2020 mainly as a result of increases in both interest rates and size of interest-earning assets, especially loans.

The Group's net interest margin was 6.0%, 5.9% and 6.1%, respectively, in 2018, 2019 and 2020. In 2019, the Group's net interest margin was relatively unchanged from 2018, reflecting the counter-balanced impact of significantly lower interest rates on CPI-linked securities but an increasing loan-to-deposit spread. In 2020, the net interest margin increased primarily due to increases in the core margin (*i.e.*, net interest income excluding interest on CPI-linked securities but including swap costs).

In 2019, the Group's average spread decreased slightly, which was principally due to increased deposit costs when compared to 2018 notwithstanding the Central Bank's commencement of rate cuts in the second half of 2019. In 2020, margin expansion was supported by increased income on CPI-linked securities and increases in the core spread. See also "– Significant Factors Affecting the Group's Financial Condition and Results of Operations – Interest Rate Environment."

Interest Income. In 2020, the Group's interest income decreased by 6.3% to TL 39,393,261 thousand from TL 42,045,625 thousand, which itself was a 1.9% increase from TL 41,246,027 thousand in 2018. The following table sets out the interest-earnings on the Group's interest-earning assets during each of the indicated years:

	2018	2019	2020
		(TL thousands)	
Interest income on loans	30,971,635	33,866,206	30,919,973
Interest income on reserve deposits	324,582	233,541	82,696
Interest income on banks	629,799	855,208	200,909
Interest income on money market transactions	37,728	395,622	749,549
Interest income on securities portfolio	8,261,754	5,658,911	6,558,261
Financial lease income	539,811	511,531	505,551
Other interest income	480,718	524,606	376,322
Total interest income	**41,246,027**	**42,045,625**	**39,393,261**

As noted above, interest income is a function of both the volume of, and yield earned on, the Group's interest-earning assets. In 2019, the increase in interest income was principally due to a 9.3% increase in "interest income on loans" resulting largely from increasing loan volumes and improved yields through the Group's selective lending strategy on more profitable products. During the year, interest income on loans increased due in large part to increasing yields on loans, while interest income from securities decreased significantly due to lower interest on CPI-linked securities as inflation rates declined. As a result, total interest income in 2019 increased only slightly from 2018.

In 2020, the decline in interest income was primarily due to lower interest income on loans, which resulted from downward loan repricing in the first half of 2020 during the initial stages of the COVID-19 pandemic.

The following table sets forth the average yield earned by the Bank (daily average) and the Group (quarterly average) on certain interest-earning assets for the indicated years. For additional information with respect to the Bank's interest income during these years, including with respect to Turkish Lira- and foreign currency-denominated assets, see "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data" and "– Net Changes in Interest Income and Expense – Volume and Rate Analysis."

	2018	2019	2020
Total average yield for the Bank	**13.53%**	**13.70%**	**10.63%**
Deposits at banks	4.78%	5.76%	3.94%
Investments in securities	19.82%	13.40%	12.21%
Loans and advances to customers	13.05%	14.55%	10.88%
Total average yield for the Group	**12.39%**	**11.77%**	**9.18%**

The slight increase in the yield earned by the Bank in 2019 compared to 2018 primarily resulted from the Bank's strategy to improve net interest margin and focus on income from core banking operations. In 2020, the decline in yields was primarily due to lower interest rates on loans, which resulted from downward loan repricing in the first half of 2020 during the initial stages of the COVID-19 pandemic.

Interest Expense. In 2020, the Group's interest expense decreased by 34.5% to TL 14,000,693 thousand from TL 21,372,200 thousand in 2019, itself an increase of 4.9% from TL 20,369,094 thousand in 2018. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during each of the indicated years:

	2018	2019	2020
		(TL thousands)	
Interest on deposits	14,756,035	16,529,107	9,437,262
Interest on funds borrowed	1,965,032	1,799,135	1,347,055
Interest on money market transactions	1,193,709	117,758	333,448
Interest on securities issued	2,388,905	2,650,526	2,328,935
Lease interest expense	3,234	188,093	133,480
Other interest expenses	62,179	87,581	420,513
Total interest expense	**20,369,094**	**21,372,200**	**14,000,693**

The increase in the Group's interest expense in 2019 was principally in line with the increase in the size of its funding base and interest rates, whereas the significant decline in 2020 was the result of a significant decline in Turkish lira interest rates (and the resulting decreased expenses for Turkish Lira deposits). As noted above, changes in the interest rates that the Group pays on its interest-bearing liabilities significantly affect the Group's interest expense. As the Group's interest-bearing deposits represent the largest portion of its liabilities (53.2%, 52.9% and 42.9%, respectively, as of 31 December 2018, 2019 and 2020), the interest rates that the Group pays on its deposits typically have the largest impact on the Group's interest expense. The following table sets forth the average interest rates paid by the Bank (daily average) and the Group (quarterly average) on interest-bearing deposits and other interest-bearing liabilities for the indicated years:

	2018	2019	2020
Total interest rates for the Group	**7.75%**	**8.13%**	**5.05%**
Total interest rates for the Bank	**7.75%**	**8.28%**	**5.26%**
Deposits	8.11%	8.87%	5.01%
Short-term debt (one year or less)	9.36%	7.31%	5.20%
Long-term debt	6.04%	6.55%	5.88%
Repurchase agreements	17.47%	7.14%	7.66%

In 2018, the increase in the interest rates was principally due to the increasing interest rate environment, which environment also continued in the first seven months of 2019 before the Central Bank's commencement of rate cuts. This continued through most of 2020 until the increase in interest rates by the Central Bank starting in August 2020. See "- Financial Condition - Liabilities" below.

For additional information with respect to the Bank's interest expense during these years, including with respect to the size of and yield paid on Turkish Lira- and foreign currency-denominated liabilities, see "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Liabilities – Average Interest-Bearing Liabilities" and "– Net Changes in Interest Income and Expense – Volume and Rate Analysis." In addition, certain information on the interest rates paid by the Group on its interest-bearing liabilities can be found in "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities" below.

Net Fees and Commissions Income/Expenses

The Group's net fees and commissions income/expenses for 2020 was TL 6,587,665 thousand, an increase of 5.0% from TL 6,273,573 thousand, itself an increase of 22.9% from TL 5,102,687 thousand in 2018. In 2019, the Group sustained strong growth momentum due particularly to the growth in credit cards, non-cash loan fees and money transfer fees. In 2020, the growth in net fees and commissions income was lower in part due to the imposition of a new legal cap on the fees that can be charged to merchants, fees and commissions from the payment systems business, which is the largest component of fees and commissions. In addition, as noted above, the BRSA and Central Bank amended the applicable fee and commission regulations by issuing separate decrees on 10 February 2020 that (effective as of 1 March 2020) imposed new limitations on certain fees and commissions that Turkish banks may charge to customers, including imposing a limit on fees for electronic funds transfers, which negatively impacted the fees and commissions earned by the Group.

The following table sets out the components of the Group's fees and commissions income and expenses for each of the indicated years:

	2018	2019	2020
		(TL thousands)	
Fees and commissions income	**6,944,272**	**8,643,797**	**8,296,891**
Non-cash loans	587,647	721,434	781,528
Others	6,356,625	7,922,363	7,515,363
Fees and commissions expenses	**1,841,585**	**2,370,224**	**1,709,226**
Non-cash loans	2,238	15,350	23,250
Others	1,839,347	2,354,874	1,685,976
Net fees and commissions income/expenses	**5,102,687**	**6,273,573**	**6,587,665**

Dividend Income

Dividend income of TL 7,691 thousand in 2018, TL 11,276 thousand in 2019 and TL 22,178 thousand in 2020 each represented less than 0.1% of the Group's total operating profit for the year.

Net Trading Income/Losses

In 2018, the Group experienced a net trading loss of TL 1,145,747 thousand, which was followed by a net trading loss of TL 1,806,062 thousand and a net trading gain of TL 702,894 thousand, respectively, in 2019 and 2020. In 2019 and 2020, the net trading losses resulted from foreign exchange losses experienced due to the high swap funding cost of the Group in Turkish Lira.

The following table sets out the categories of the Group's net trading income/losses during each of the indicated years:

	2018	2019	2020
		(TL thousands)	
Trading income			
Trading account income	1,591,473	492,021	1,813,299
Derivative financial instruments	21,709,326	28,315,997	13,715,437
Foreign exchange gain	140,441,530	104,556,905	142,355,207
Total trading income	**163,742,329**	**133,364,923**	**157,883,943**
Trading losses			
Trading account losses	(737,624)	(649,105)	(1,238,967)
Derivative financial instruments	(20,869,699)	(31,251,304)	(19,936,534)
Foreign exchange losses	(143,280,753)	(103,270,576)	(136,005,548)
Total trading losses	**(164,888,076)**	**(135,170,985)**	**(157,181,049)**
Net trading income/losses	**(1,145,747)**	**(1,806,062)**	**702,894**

Other Operating Income

Total other operating income was TL 3,517,425 thousand in 2018, increasing by 61.4% in 2019 to TL 5,676,784 thousand and further increasing by 15.4% in 2020 to TL 6,550,123 thousand. The following table sets out the Group's other operating income by category for each of the indicated years:

	2018	2019	2020
		(TL thousands)	
Prior Year Reversals	2,464,810	4,166,567	4,579,702
Stage 1	998,259	1,156,539	1,317,604
Stage 2	587,115	1,731,371	1,645,664
Stage 3	641,597	1,129,416	1,421,253
Others	237,839	149,241	195,181
Income from term sale of assets	179,793	103,562	138,213
Others	872,822	1,406,655	1,832,208
Other operating income	**3,517,425**	**5,676,784**	**6,550,123**

In 2018, 2019 and 2020, non-performing loans, lease receivables and factoring receivables of the Bank and/or its consolidated financial subsidiaries amounting to TL 353,750 thousand, TL 1,026,813 thousand and TL 147,010 thousand, respectively, were sold for a consideration of TL 30,734 thousand, TL 70,566 thousand and TL 54,892 thousand, respectively. After reflecting the related provisions that had been provided for in prior periods, a gain from these sales amounting to TL 28,651 thousand, TL 68,882 thousand and TL 30,670 thousand, respectively, was recognised under "other operating income."

Provision for Losses on Loans or other Receivables

The following table sets out the Group's expected credit losses by category during each of the indicated years:

	2018	2019	2020
		(TL thousands)	
Expected credit losses	**9,257,780**	**11,491,709**	**14,330,950**
12 month ECL (Stage 1)	*1,062,942*	*1,567,920*	*2,749,573*
Significant increase in credit risk (Stage 2)	*3,182,234*	*3,005,735*	*6,900,740*
Impaired credits (Stage 3)	*5,012,604*	*6,918,054*	*4,680,637*
Impairment losses on securities	**39,699**	**16,569**	**62,208**
Financial assets measured at fair value through profit or loss	*37,125*	*12,752*	*56,806*
Financial assets measured at fair value through other comprehensive income	*2,574*	*3,817*	*5,402*
Impairment losses on associates, subsidiaries and joint-ventures	**20,832**	**—**	**295,281**
Associates	—	—	*295,281*
Subsidiaries	*20,832*	—	—
Joint-ventures (business partnership)	—	—	—
Others[(1)]	**1,517,935**	**839,374**	**3,471,555**
Total	**10,836,246**	**12,347,652**	**18,159,994**

(1) Includes general reserves amounting to TL 1,090,000 thousand in 2018, TL 250,000 thousand in 2019 and TL 2,150,000 thousand in 2020.

The following table sets out the Group's expected credit losses for loans as of 31 December 2018, 2019 and 2020:

	Stage 1	Stage 2	Stage 3	Total
		(TL thousands)		
Balances at beginning of period (1 January 2018)	908,210	3,531,388	4,512,355	8,951,953
Additions during the period (+)	1,665,196	5,005,345	3,111,983	9,782,524
Disposal (-)	(2,365,129)	(1,117,884)	(952,422)	(4,435,435)
Debt sale (-)	(649)	—	(351,667)	(352,316)
Write-offs (-)	—	—	(2,254,607)	(2,254,607)
Transfer to Stage 1	1,234,803	(1,227,561)	(7,242)	—
Transfer to Stage 2	(570,081)	612,034	(41,953)	—
Transfer to Stage 3	(5,805)	(3,920,918)	3,926,723	—
Foreign currency differences	75,605	1,144,885	181,419	1,401,909
Balance as of 31 December 2018	**942,150**	**4,027,289**	**8,124,589**	**13,094,028**
Additions during the period (+)	2,011,898	5,584,149	4,713,858	12,309,905
Disposal (-)	(2,511,214)	(3,178,773)	(1,080,557)	(6,770,544)
Debt sale (-)	—	—	(1,025,130)	(1,025,130)
Write-offs (-)	(133)	(8)	(874,821)	(874,962)
Transfer to Stage 1	1,276,145	(1,270,029)	(6,116)	—
Transfer to Stage 2	(520,603)	552,520	(31,917)	—
Transfer to Stage 3	(7,050)	(1,957,492)	1,964,542	—
Foreign currency differences	35,939	275,927	398,486	710,352
Balance as of 31 December 2019	**1,227,132**	**4,033,583**	**12,182,934**	**17,443,649**
Additions during the period (+)	3,491,928	8,268,724	2,422,590	14,183,242
Disposal (-)	(3,436,416)	(3,292,269)	(1,511,619)	(8,240,304)
Debt sale (-)	—	—	(122,788)	(122,788)
Write-offs (-)	—	—	(4,669,852)	(4,669,852)
Transfer to Stage 1	1,215,585	(1,210,967)	(4,618)	—
Transfer to Stage 2	(479,118)	492,688	(13,570)	—
Transfer to Stage 3	(3,805)	(561,047)	564,852	—
Foreign currency differences	173,905	833,756	1,367,155	2,374,816
Balance as of 31 December 2020	**2,189,211**	**8,564,468**	**10,215,084**	**20,968,763**

The Group's NPL ratio was 5.2% as of 31 December 2018 and then increased to 6.8% as of 31 December 2019 before declining to 4.5% as of 31 December 2020. The increase in 2019 was principally caused by new commercial and corporate NPLs as a result of volatility and declines in GDP during the first half of the year. In 2020, NPL inflows were limited due to the BRSA's temporary forbearance measures and the Bank's strong collection performance.

The effect of NPL sales on the Group's NPL ratio was to reduce it by 0.13%, 0.33% and 0.04% in 2018, 2019 and 2020, respectively (*i.e.*, the NPL ratio for such periods would have been higher by such amounts had such sales not occurred).

The Group also reflects on its balance sheet a category of "loans under follow-up," which are loans transferred to Stage 2 due to a significant increase in credit risk since initial recognition based upon TFRS 9. This amount was TL 38,712,181 thousand, TL 38,470,914 thousand and TL 59,278,424 thousand, respectively, as of 31 December 2018, 2019 and 2020, portions of which amount might later either be transferred to Stage 1 (*i.e.*, when a loan becomes a loan in good standing) or be transferred to Stage 3 and treated as an NPL (and have related specific provisions) should a loan become non-performing.

The Bank's management increased the general reserves of TL 1,090,000 thousand (to TL 2,250,000 thousand) in 2018, by TL 250,000 thousand (to TL 2,500,000 thousand) in 2019 and by TL 2,150,000 thousand (to TL 4,650,000 thousand) in 2020, in each case due to the possible effects of negative circumstances that might arise in the economy or in market conditions. The BRSA Annual Financial Statements were qualified with respect to general reserves that were allocated by the Group's management. The provisions were taken in accordance with the conservatism principle applied by the Group in considering the circumstances that may arise from any changes in the economy or market conditions. See "Risk Factors – Risks Relating to the Group and its Business – Other Group-Related Risks – Audit Qualification."

Write-off policy

As noted above, the general policy of the Group regarding the write-off process for loans is to write-off a loan that has, during the legal follow-up process, been determined to be uncollectible. Total loans written off from assets were TL 2,255,570 thousand, TL 142,715 thousand and TL 11,150 thousand, respectively, as of 31 December 2018, 2019 and 2020.

As of 31 December 2020, the Bank's written-down "Group V" loans amounted to TL 4,013,937 thousand and the Bank's consolidated subsidiaries' written-down "Group V" loans amounted to TL 715,835 thousand (TL 712,527 thousand and TL 20,950 thousand, respectively, as of 31 December 2019 and no such write downs as of 31 December 2018).

Personnel Expenses

Personnel expenses increased by 5.5% to TL 4,419,743 thousand in 2020 from TL 4,187,991 thousand in 2019, itself a 14.9% increase from TL 3,645,278 thousand in 2018. These increases were principally the result of higher wage levels due to salary increases driven by inflation.

Other Operating Expenses

As noted above, the Group's other operating expenses include traditional business expenses such as depreciation and amortisation expenses on tangible and intangible assets and operational lease-related expenses. Other operating expenses in 2020 increased by 22.0% to TL 7,467,095 thousand from TL 6,121,085 thousand in 2019, itself a 19.5% increase from TL 5,123,707 thousand in 2018. These increases principally resulted from an increase in "other expenses," which includes various normal course expenses such as legal expenses and utility charges, none of which is individually material.

The Group's cost-to-income ratio (which includes both personnel expenses as well as other operating expenses) increased from 48.7% in 2018 to 54.0% in 2019 and then decreased to 52.2% in 2020. The Group's operating expenses to average total assets ratio was 2.2% in 2018, 2.4% in 2019 and 2.4% in 2020. The increase in the cost-to-income ratio in 2019 was largely due to lower interest income on CPI-linked securities, the impact of inflation of operating costs and higher provisioning whereas the change in 2020 was primarily the result of improved net interest income.

The following table sets out the components of the Group's other operating expenses for each of the indicated years:

	2018	2019	2020
		(TL thousands)	
Reserve for employee termination benefits	75,965	103,721	109,294
Impairment losses on tangible assets	3,975	24,104	98,951
Depreciation expenses of tangible assets	339,986	400,186	395,872
Impairment losses on intangible assets	—	328	—
Amortisation expenses of intangible assets	127,014	140,883	165,387
Impairment losses on assets to be disposed	79,524	23,167	7,881
Depreciation expenses of right-of-use assets	—	327,302	340,696
Impairment losses on assets held for sale and discontinued assets	—	1,578	3,635
Operational lease-related expenses	534,796	177,721	193,117
Repair and maintenance expenses	91,374	92,014	92,123
Advertisement expenses	225,277	183,420	171,995
Loss on sale of assets	7,119	9,273	1,630
Other expenses[(1)]	2,781,175	3,362,896	4,216,336
Others[(2)]	857,502	1,274,492	1,670,178
Other operating expenses	**5,123,707**	**6,121,085**	**7,467,095**

(1) Other expenses includes various normal course expenses such as legal expenses, utility charges, none of which is individually material. See note 5.4.7 in the Group's BRSA Financial Statements as of and for the year ended 31 December 2020.

(2) Others includes SDIF-related expenses, repayments of certain fees and commissions to customers and insurance business-claim losses. See note 5.4.7 in the Group's BRSA Financial Statements as of and for the year ended 31 December 2020.

Provision for Taxes

Income taxation charges for 2020 amounted to TL 2,823,433 thousand, which was a 46.2% increase from TL 1,930,878 thousand in 2019, which itself was a 5.7% decrease from TL 2,047,153 thousand in 2018. The Group's taxation charges for 2020 include a deferred tax credit of TL 1,726,541 thousand whereas 2019 included a deferred tax credit of TL 431,237 thousand and 2018 included a deferred tax charge of TL 240,558 thousand, each as a result of improvements in mark-to-market valuation of derivative financial instruments. The changes in the Group's taxation charges for 2019 and 2020 reflect the tax rate for the applicable year and changes in gains and losses that are not considered in calculations of taxable income.

The Group's effective income tax rate (calculated based upon its reported provision for taxes *divided by* its profit/(loss) before taxes) for 2018, 2019 and 2020 was 23.4%, 23.6% and 30.7%, respectively. The deviations from the applicable corporate tax rate of 22% in these years were due to both general reserves and expected credit losses for Stage 1 and 2 loans not being deductible based upon the BRSA Principles.

Taxes on income from the Group's non-Turkish operations were immaterial in each of 2018, 2019 and 2020.

Financial Condition

The following summary balance sheet data for each of the indicated dates have been extracted from the Group's BRSA Financial Statements (including the notes thereto). This information should be read in conjunction with the Group's BRSA Financial Statements.

Balance Sheet Data:	As of 31 December						As of 30 September	
	2018	%	2019	%	2020	%	2021	%
Assets:	*(TL thousands, except for percentages)*							
Cash and cash equivalents	67,155,496	16.8	72,098,035	16.8	94,253,040	17.4	112,315,780	17.8
Financial assets measured at fair value through profit/(loss) (FVTPL)[1]	4,641,037	1.2	5,219,300	1.2	8,382,731	1.5	7,112,457	1.1
Financial assets measured at fair value through other comprehensive income (FVOCI)	27,162,953	6.8	28,643,529	6.7	36,785,565	6.8	44,570,638	7.1
Derivative financial assets	4,093,695	1.0	2,999,557	0.7	4,614,552	0.9	4,806,096	0.8
Loans[2]	256,009,555	64.1	277,506,599	64.8	350,233,129	64.7	413,898,805	65.6
Lease receivables	6,966,040	1.7	6,184,154	1.4	7,508,708	1.4	9,149,766	1.5
Factoring receivables	2,586,133	0.6	2,430,163	0.6	2,926,569	0.5	3,768,019	0.6
Other financial assets measured at amortised cost[3]	24,654,009	6.2	27,720,342	6.5	33,238,911	6.1	33,547,311	5.3
Expected credit losses[4]	(13,148,150)	(3.3)	(17,563,538)	(4.1)	(21,136,046)	(3.9)	(23,937,402)	(3.8)
Assets held for sale and assets of discontinued operations[1]	857,695	0.2	1,452,258	0.3	931,753	0.2	609,311	0.1
Ownership investments (net)	132,871	0.0	153,854	0.0	166,495	0.0	81,572	0.0
Tangible assets	4,494,918	1.1	5,528,299	1.3	5,960,071	1.1	5,659,077	0.9
Intangible assets	416,072	0.1	479,906	0.1	614,398	0.1	765,889	0.1
Investment property	558,309	0.1	569,719	0.1	561,525	0.1	598,353	0.1
Current tax assets	175,266	0.0	86,217	0.0	88,983	0.0	27,327	0.0
Deferred tax assets	1,519,177	0.4	1,882,010	0.4	3,640,403	0.7	3,952,012	0.6
Other assets	10,878,525	3.0	13,163,744	3.2	12,142,018	2.2	13,923,409	2.2
Total assets	**399,153,601**	**100.0**	**428,554,148**	**100.0**	**540,912,805**	**100.0**	**630,848,420**	**100.0**
Liabilities:								
Deposits	244,237,777	61.2	277,277,325	64.7	358,100,348	66.2	428,204,119	67.9
Funds borrowed	33,339,727	8.4	25,622,059	6.0	26,620,183	4.9	29,842,700	4.7
Money markets funds	2,634,590	0.7	1,786,861	0.4	3,163,978	0.6	5,514,188	0.9
Securities issued (net)	26,911,463	6.7	21,026,537	4.9	22,817,081	4.2	19,522,833	3.1
Financial liabilities measured at FVTPL	12,312,230	3.1	14,342,293	3.3	16,137,939	3.0	17,372,080	2.8
Derivative financial liabilities	4,510,162	1.1	4,239,665	1.0	8,536,890	1.6	6,126,301	1.0
Lease payables	—	—	1,134,770	0.3	1,026,367	0.2	981,051	0.2
Provisions	5,369,512	1.3	6,526,373	1.5	10,035,571	1.9	12,276,925	1.9
Current tax liability	646,881	0.2	1,251,975	0.3	2,296,347	0.4	2,142,467	0.3
Deferred tax liability	19,121	0.0	29,480	0.0	48,863	0.0	49,905	0.0
Subordinated debts	3,977,018	1.0	4,729,707	1.1	6,598,969	1.2	7,811,841	1.2
Other liabilities	18,308,278	4.6	16,536,356	3.9	23,121,074	4.3	29,878,894	4.7
Total liabilities	**352,266,759**	**88.3**	**374,503,401**	**87.4**	478,503,610	88.5	**559,723,304**	**88.7**
Shareholders' equity	**46,886,842**	**11.7**	**54,050,747**	**12.6**	62,409,195	11.5	**71,125,116**	**11.3**
Total liabilities and shareholders' equity	**399,153,601**	**100.0**	**428,554,148**	**100.0**	**540,912,805**	**100.0**	**630,848,420**	**100.0**

(1) As disclosed in Note 5.1.2.2 of the Group's BRSA Interim Financial Statements as of and for the nine month period ended 30 September 2021, financial assets measured at fair value through profit/(loss) includes a loan amounting to US$744,767,301 (US$756,288,034, US$710,182,828 and US$782,928,541, respectively, as of 31 December 2020, 2019 and 2018) provided to LYY as described in "Risk Factors - Risks Relating to the Group's Business - Counterparty Credit Risk." The fair value of such loan was determined to be TL 4,496,588 thousand as of 30 September 2021, TL 4,500,540 thousand as of 31 December 2020, TL 4,207,523 thousand as of 31 December 2019 and TL 4,081,161 thousand as of 31 December 2018. This loan has been classified under financial assets measured at fair value through profit or loss. As disclosed in note 5.1.9.2 of the Group's BRSA Interim Financial Statements as of and for the nine month period ended 30 September 2021, at the ordinary general assembly meeting of the shareholders of LYY held on 23 September 2019, it was decided to convert a predetermined part of the loan into capital as agreed in the initial shareholders' agreement. As a result of such capitalisation, the nominal value of the Bank's shares in LYY increased from TL 11 thousand to TL 881,140 thousand. As of 31 December 2020, this amount was classified as part of the "assets held for sale and assets of discontinued operations," with the resulting valuation difference recorded on the loan being reflected as an impairment in "assets held for sale and assets of discontinued operations." In 2020, all of these amounts were booked as fully impaired. On 19 September 2019, an international investment bank was authorised by the shareholders of LYY to identify potential purchasers of the shares of Türk Telekom held by LYY and, in this context, negotiations with potential investors have started.

(2) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, non-performing loans amounting to TL 13,753,384 thousand as of 31 December 2018 that were previously classified as a separate line item under the "Loans (net)" line item were reclassified in 2019 to the "Loans," "Lease receivables" and "Factoring receivables" line items, as applicable.

(3) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, financial assets measured at amortised cost amounting to TL 24,654,009 thousand as of 31 December 2018 that were previously classified as "financial assets measured at amortised cost" under the "Financial assets (net)" line item were reclassified in 2019 to the "Other financial assets measured at amortised cost" line item.

(4) According to required changes in the format of BRSA Financial Statements effective from 1 January 2019, and parallel to the reclassification described in footnote (3), expected credit losses for financial assets measured at amortised cost amounting to TL 54,125 thousand as of 31 December 2018 that were previously classified under the "Financial assets (net)" line item were reclassified in 2019 to the "Expected credit losses" line item.

The following summary balance sheet data for each of the indicated dates have been extracted from the Group's BRSA Annual Financial Statements and BRSA Interim Financial Statements. This information should be read in conjunction with such BRSA Financial Statements.

Assets

As of 30 September 2021, the Group's total assets amounted to TL 630,848,420 thousand, a 16.6% increase from TL 540,912,805 thousand as of 31 December 2020, itself a 26.2% increase from TL 428,554,148 thousand as of 31 December 2019, which itself was a 7.4% increase from TL 399,153,601 thousand as of 31 December 2018. Cash and balances with central banks (and, after a change to the presentation of the financial statements as per new rules introduced by the BRSA, cash and cash equivalents) represented 16.8%, 16.8%, 17.4% and 17.8% of the Group's total assets as of 31 December 2018, 2019 and 2020 and 30 September 2021, respectively, as most of the Group's funds are invested in interest-earning assets. The following describes the Group's loans and financial assets (including: (a) financial assets measured at fair value through profit or loss, (b) financial assets measured at fair value through other comprehensive income and (c) financial assets measured at amortised cost), which jointly represented 77.4%, 77.0%, 77.3% and 77.4%, respectively, of the Group's total assets as of 31 December 2018, 2019 and 2020 and 30 September 2021.

Loans. Loans to customers represented 64.1%, 64.8%, 64.7% and 65.6% of the Group's total assets as of 31 December 2018, 2019 and 2020 and 30 September 2021, respectively. The Group's loans amounted to TL 413,898,805 thousand as of 30 September 2021, an 18.2% increase from TL 350,233,129 thousand as of 31 December 2020, itself a 26.2% increase from TL 277,506,599 thousand as of 31 December 2019, which itself was an 8.4% increase from TL 256,009,555 thousand as of 31 December 2018. Note 5.1.5 in the Group's BRSA Interim Financial Statements provides significant details about the breakdown of the Group's loan portfolio, including information on performing loans, collateral, maturity, consumer loan breakdown and provisions.

This growth was spread across a wide range of groups and industries, reflecting the Group's ability to meet the strong demand for consumer loans and loans to certain industry sectors (including energy and transportation vehicles) and (in 2018) the impact of the KGF programme. While the energy sector in Turkey was under pressure in recent years due to suppressed energy prices, the Bank's management expects recovery in this sector since the energy prices have stabilised. The Bank has allocated high levels of provisions for loans granted to the energy sector. On the other hand, the Bank has a low direct exposure to the real estate sector and benefits from state guarantees for its loans to various large infrastructure projects. While the growth in Turkish Lira-denominated loans during 2019 was balanced across categories, business banking loans were stronger in the first quarter of 2019 and general purpose loans to retail customers were stronger in the fourth quarter of 2019. With respect to foreign currency-denominated loans, there was a decline of 5.9% (calculated in U.S. dollar terms) during 2019, principally due to significant redemptions during the third quarter of 2019 and decreased demand for new loans. In 2020, Turkish Lira-denominated business banking loans were the main driver of the growth, especially in the first half, as businesses sought funding during the initial phases of the COVID-19 pandemic. Consumer loans gained pace in the second half of 2020 following the reopening of the economy. In the first nine months of 2021, growth remained strong in all categories, resulting in the Bank being the leader in both gross and performing Turkish Lira-denominated loans (excluding Stage 3 loans) among private banks as of 30 September 2021.

In 2020, the Group's NPLs decreased by 17.4% to TL 16,118,312 thousand as of 31 December 2020 from TL 19,510,386 thousand as of 31 December 2019, itself a 41.9% increase from TL 13,753,384 thousand as of 31 December 2018. In the first nine months of 2021, the Group's NPLs increased by 1.6% to TL 16,376,783 thousand. In 2019, the Group's NPLs increased due to low economic activity and high unemployment levels, principally for retail and SME loans during the first half of 2019 and then corporate and commercial loans during the second half of the year (corporate and commercial inflows constituting two-thirds of the NPL inflow during the year). New NPL inflows reached a peak in the third quarter of 2019 but started to improve in the following quarter. In addition, the NPL ratio benefitted during the fourth quarter of 2019 from a new BRSA regulation that allows Turkish banks to move well-provisioned loans off their balance sheet. In 2020, NPLs declined due largely to write-downs (TL 4.7 billion) whereas the NPLs as of 30 September 2021, which was followed by a further TL 1.2 billion of write-downs during the first nine months of 2021.

As of 31 December 2018, 2019 and 2020 and 30 September 2021, the Group's restructured loans amounted to TL 8,770,525 thousand, TL 11,758,186 thousand, TL 19,983,862 thousand and TL 32,521,088 thousand, respectively. For additional information on the movement of the NPL balances in the Group's balance sheet, see note 5.1.5.10 in the Group's BRSA Interim Financial Statements.

In 2019, the Group's NPL ratio increased to 6.8% from 5.2% in 2018, which increase was primarily due to low economic activity and high unemployment levels, with corporate and commercial inflows constituting two-thirds of the NPL inflow during the year. In 2020, the Group's NPL ratio decreased to 4.5%, which decline was principally the result of the BRSA's temporary loan classification changes during the COVID-19 pandemic discussed previously and TL 4.7 billion in write-downs (with the write-downs accounting for 1.3% of the decline). The NPL ratio then further declined to 3.8% as of 30 September 2021 due both to such temporary measure and TL 1.2 billion in write-downs (the total impact of the write-downs in 2020 and the first three quarters of 2021 was to reduce the NPL ratio by 0.3%).

For additional information on the Group's loan portfolio, see "Selected Statistical and Other Information – Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rates and Interest Differential – Average Balance Sheet and Interest Data" and "– Summary of Loan Loss Experience."

Financial Assets. Financial assets (including: (a) financial assets measured at fair value through profit or loss, (b) financial assets measured at fair value through other comprehensive income and (c) financial assets measured at amortised cost), principally Turkish government securities, have historically represented a significant portion of the Group's assets. As of 31 December 2018, 2019 and 2020 and 30 September 2021, investment securities represented 13.0%, 13.2%, 12.9% and 12.4%, respectively, of the Group's total assets. In each of these periods, the change in investment securities as a portion of the Group's total assets was the result of the Bank's focus on lending. The following table provides information as to the breakdown of the Group's financial asset portfolio (excluding derivative financial assets held for trading) as of the indicated dates:

	As of 31 December						As of 30 September	
	2018	%	2019	%	2020	%	2021	%
	(TL thousands, except for percentages)							
Financial assets measured at fair value through profit/(loss)								
Government securities	259,574	0.5	461,891	0.8	2,913,471	4.0	1,246,543	1.5
Equity securities	200,326	0.4	333,420	0.6	601,888	0.8	1,061,920	1.3
Other financial assets	99,976	0.2	216,466	0.4	366,832	0.5	307,406	0.4
Total financial assets measured at fair value through profit/(loss)	**559,876**	**1.1**	**1,011,777**	**1.8**	**3,882,191**	**5.3**	**2,615,869**	**3.2**
Financial assets measured at fair value through other comprehensive income								
Government securities	22,831,811	43.6	24,819,743	43.3	31,639,296	42.9	37,596,056	46.6
Equity securities	235,462	0.5	382,381	0.7	312,816	0.4	389,524	0.5
Other financial assets	4,095,680	7.8	3,441,405	6.0	4,833,453	6.6	6,585,058	8.2
Total financial assets measured at FVOCI	**27,162,953**	**51.9**	**28,643,529**	**50.0**	**36,785,565**	**49.9**	**44,570,638**	**55.2**
Financial assets measured at amortised cost								
Government securities	24,606,227	47.0	27,558,636	48.1	33,172,271	45.0	33,475,777	41.5
Other financial assets	47,782	0.1	161,706	0.3	66,640	0.1	71,534	0.1
Total financial assets measured at amortised cost	**24,654,009**	**47.1**	**27,720,342**	**48.4**	**33,238,911**	**45.1**	**33,547,311**	**41.6**
Expected credit losses (-)	**(54,125)**	**(0.1)**	**(119,889)**	**(0.2)**	**(167,283)**	**(0.2)**	**(41,482)**	**(0.1)**
Total	**52,322,713**	**100.0**	**57,255,759**	**100.0**	**73,739,384**	**100.0**	**80,692,336**	**100.0**

As of 31 December 2018, 2019 and 2020 and 30 September 2021, respectively, securities issued by Turkey represented 91.1%, 92.1%, 91.5% and 89.5% of the Group's securities portfolio consisting of: (a) financial assets measured at fair value through profit or loss (excluding derivative financial assets), (b) financial assets measured at fair value through other comprehensive income and (c) financial assets measured at amortised cost.

The most significant changes in the Group's securities portfolio from 2018 through the first nine months of 2021 was the increase in holdings of Turkish government securities held as financial assets measured at amortised cost in the table above, which increased from 47.0% of the Group's total investment securities portfolio as of 31 December 2018 to 48.1% as of 31 December 2019 and then decreased to 45.0% as of 31 December 2020 and 41.5% as of 30 September 2021.

Pursuant to Turkish market practice, the Group pledges securities to acquire funding under security repurchase agreements. The Group utilises such funding depending upon the difference in rates paid on deposits compared to Central Bank rates, which vary based upon market conditions as well as Central Bank policy. The securities in its securities portfolio that were so pledged amounted to TL 1,208,216 thousand as of 31 December 2018, TL 1,902,476 thousand as of 31 December 2019, TL 301,643 thousand as of 31 December 2020 and TL 2,028,830 thousand as of 30 September 2021, comprising 2.3%, 3.3%, 0.4% and 2.5%, respectively, of the Group's total securities portfolio.

For additional information on the Group's securities portfolio, see notes 5.1.2, 5.1.3 and 5.1.8 in the Group's BRSA Interim Financial Statements and "Selected Statistical and Other Information – Securities Portfolio."

Liabilities

As of 30 September 2021, the Group's total liabilities amounted to TL 559,723,304 thousand, a 17.0% increase from TL 478,503,610 thousand as of 31 December 2020, itself a 27.8% increase TL 374,503,401 thousand as of 31 December 2019, which itself was a 6.3% increase from TL 352,266,759 thousand as of 31 December 2018.

The Group's TL 290,583,435 thousand in average interest-bearing liabilities during the first nine months of 2021 resulted primarily from average time deposits of customers (78.5%), average funds borrowed (10.1%) and average securities issued (6.2%). These same categories represented 68.2%, 16.6% and 10.5%, respectively, of the Group's TL 253,131,644 thousand in average interest-bearing liabilities during 2018, 74.9%, 12.0% and 10.6%, respectively, of the Group's TL 245,785,692 thousand in average interest-bearing liabilities during 2019 and 75.4%, 10.8% and 8.8%, respectively, of the Group's TL 256,345,517 thousand in average interest-bearing liabilities during 2020.

The following summarises the three principal categories of the Group's liabilities - deposits, funds borrowed and securities issued.

Deposits. Deposits have been and are expected to continue to be the most important source of funding for the Group. The Group's total deposits amounted to TL 428,204,119 thousand as of 30 September 2021, a 19.6% increase from TL 358,100,348 thousand as of 31 December 2020, itself a 29.1% increase from TL 277,277,325 thousand as of 31 December 2019, which itself was a 13.5% increase from TL 244,237,777 thousand as of 31 December 2018. Foreign currency deposits (principally U.S. dollars and euro) represented 57.4%, 59.2%, 60.3% and 59.6% of the Group's total deposits as of 31 December 2018, 2019 and 2020 and 30 September 2021, respectively. For additional information on the Group's deposits, see note 5.2.1 in the Group's BRSA Interim Financial Statements and "Selected Statistical and Other Information - Deposits."

Funds borrowed. As deposits are generally of a short-term duration, the Group has obtained wholesale funding on a more limited basis principally to better match the maturity and currency of its longer-term assets. This funding has included the Bank's borrowings (including syndicated bank loans) and financings collateralised by certain of the wire transfers and other remittances received by the Bank from its correspondent banks and other senders of such transfers. Funds borrowed amounted to TL 29,842,700 thousand as of 30 September 2021 (4.7% of the Group's total liabilities), TL 26,620,183 thousand as of 31 December 2020 (4.9% of the Group's total liabilities), TL 25,622,059 thousand as of 31 December 2019 (6.0% of the Group's total liabilities) and TL 33,339,727 thousand as of 31 December 2018 (8.4% of the Group's total liabilities). A portion of these liabilities (either when incurred or as a result of aging) are themselves short-term (as of 30 September 2021, 13.5% of funds borrowed were "short term" (*i.e.*, having a remaining term-to-maturity of one year or less) as compared to 15.6%, 16.9% and 20.7%, respectively, as of 31 December 2018, 2019 and 2020). For additional information on the Group's funds borrowed, see note 5.2.2 in the Group's BRSA Interim Financial Statements and "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities."

Securities issued. Securities issued amounted to TL 19,522,833 thousand as of 30 September 2021, constituting 3.1% of the Group's total liabilities, decreasing its share of the Group's total liabilities as compared to TL 22,817,081 thousand as of 31 December 2020 (4.2% of the Group's total liabilities), TL 21,026,537 thousand as of 31 December 2019 (4.9% of the Group's total liabilities) and TL 26,911,463 thousand as of 31 December 2018 (6.7% of the Group's total liabilities). In 2019, the decline was due to the Bank's strategy for its wholesale portfolio, taking into consideration the high liquidity levels of the Bank and unfavourable market conditions for new issuances. For example, the Bank did not refinance two eurobonds that matured in 2019 but instead took opportunities in the market to have smaller issuances in alternative funding sources such as diversified payment rights future flow transactions, green bonds and bilateral loans. In 2020 and the first nine months of 2021, the Bank adopted the same strategy backed by high levels of liquidity; utilising bilateral loans and rolling over syndicated loans in 2020, which continued in the first nine months of 2021 by only rolling over a syndicated loan but not refinancing a maturing eurobond. The share of the outstanding balances of such transactions in the Group's balance sheet changes depending upon the relative costs of funding in the market; *however*, it has increased in recent years due to the Group's successful use of the Programme (which it launched in 2013). For additional information on the Group's securities issued, see note 5.2.4 in the Group's BRSA Interim Financial Statements.

Shareholders' Equity

The Group's total shareholders' equity as of 30 September 2021 amounted to TL 71,125,116 thousand, an increase of 14.0% from TL 62,409,195 thousand as of 31 December 2020, which was an increase of 15.5% from TL 54,050,747 thousand as of 31 December 2019, which itself was a 15.3% increase from TL 46,886,842 thousand as of 31 December 2018. Shareholders' equity principally changes as a result of the Group's net profit/(loss) and changes in the amount of unrealised gains and losses on financial assets measured at fair value through other comprehensive income (which changes are not included in profit/(loss)). The following tables summarise the components of the Group's shareholders' equity as of the indicated dates:

	As of 31 December			As of 30 September
	2018	2019	2020	2021
	(*TL thousands*)			
Paid-in capital	4,200,000	4,200,000	4,200,000	4,200,000
Capital reserves	784,434	784,434	784,434	784,434
Other comprehensive income/expense items not to be recycled to profit or loss	1,473,394	1,642,584	1,712,571	1,783,979
Other comprehensive income/expense items to be recycled to profit or loss	611,843	1,371,976	3,081,402	3,278,999
Profit reserves	32,977,973	39,612,929	46,078,019	51,806,571
Profit/(loss)	6,641,652	6,164,914	6,305,090	8,983,541
Minority interest	197,546	273,910	247,679	287,592
Total shareholders' equity	**46,886,842**	**54,050,747**	**62,409,195**	**71,125,116**

For additional information on the Group's shareholders' equity, see note 5.2.14 in the Group's BRSA Interim Financial Statements. In addition, see "Capital Adequacy" below.

The Bank's dividend policy is to distribute up to 30% of the distributable net profit subject (as is required by law) to the approval of the BRSA; *however*, the BRSA delivered a recommendation letter to banks suggesting that they not distribute dividends in 2019 or 2020 due to the recovery in the economy following the volatility in 2018 and 2019. With respect to 2020 net income, the BRSA allowed banks to distribute up to 10% of their distributable net income and, accordingly, the Bank distributed in April 2021 10% of its distributable net income for the year 2020. See "Ownership - Dividends and Dividend Policy."

Off-Balance Sheet Commitments and Contingencies

In the normal course of business in order to meet the needs of its customers and to hedge the Group's own positions (and generally not for speculative purposes), the Group enters into certain off-balance sheet transactions. These transactions expose the Group to credit risk that is not reflected on the Group's balance sheet. The Group applies to these transactions the same credit policies in making commitments and assuming conditional obligations as it does for on-balance sheet transactions, including the requirement to obtain collateral when it is considered necessary.

The Group generates significant amounts of fees from these transactions while incurring a very small amount of credit losses thereon as almost all of these transactions expire without any need for payment by the Group (for example, a letter of credit expiring when the related buyer of goods makes its payment to the seller). Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

The most significant category of such transactions includes letters of guarantee, letters of credit, bank acceptances and other support that the Group provides to its import and export customers, as well as off-balance sheet exposure for derivative financial instruments and the Group's commitments to make loans to its borrowers.

The following summarises the three principal categories of the Group's off-balance sheet exposures – letters of credit and similar transactions, commitments to customers under credit facilities and derivative financial instruments. See also note 5.3 in the Group's BRSA Interim Financial Statements for additional information.

Guarantees and sureties. Most of the Group's letters of guarantee and credit were issued (or confirmed) in connection with the export and trade finance-related activities of the Group's customers. The following table summarises the Group's exposure under such transactions as of the indicated dates:

	As of 31 December			As of
	2018	2019	2020	30 September 2021
		(TL thousands)		
Letters of guarantee	50,173,770	50,427,390	65,332,869	80,675,540
Letters of credit	14,685,922	10,676,483	13,163,222	17,074,705
Bank acceptances	2,788,829	1,579,043	2,173,451	1,947,521
Endorsements	-	-	-	1,556,255
Other guarantees	66,907	74,179	125,852	205,180
Total guarantees and sureties	**67,715,428**	**62,757,095**	**80,795,394**	**101,459,201**

The Group generates significant amounts of fees from these transactions while incurring a very small amount of credit losses thereon as almost all of these transactions expire without any need for payment by the Group (for example, a letter of credit that expires when the related buyer of goods makes its payment to the seller). The Group has not, since the beginning of 2018, experienced any material credit events with respect to its guarantees and sureties. The Group accounts for expected credit losses for non-cash exposures, including irrevocable unused credit card limits, at initial recognition by using credit conversion factors in line with TFRS 9.

Commitments. The Group's "commitments" are composed principally of unused credit limits for credit cards, overdrafts, checks and loans to customers and commitments for credit-linked-notes, under which the Group has unused commitments of TL 115,814,717 thousand as of 30 September 2021, an increase of 10.5% from TL 104,828,423 thousand as of 31 December 2020, itself an increase of 36.1% from TL 77,012,810 thousand as of 31 December 2019, which itself was an increase of 17.5% from TL 65,539,928 thousand as of 31 December 2018. These increases are consistent with the general growth of the Group's lending business, including its credit card business.

Derivative Financial Instruments. The Group's exposure to derivative transactions arises principally in connection with customer-dealing and funding activities. The Group also enters into certain derivatives transactions in order to hedge its currency, interest rate and other risks. The Group enters into derivative financial instruments with domestic and foreign counterparties that it considers to be creditworthy (mostly with an investment grade rating) or, in most cases, that are fully secured. As of 30 September 2021, the Group's face values of outstanding derivative contracts arising from various derivatives amounted to TL 520,441,450 thousand, a 9.6% increase from TL 474,690,525 thousand, itself a 33.7% increase from TL 354,979,893 thousand as of 31 December 2019, which was itself a 1.6% decrease from TL 360,581,304 thousand as of 31 December 2018. The changes resulted from currency swap transactions and interest rate swaps entered into for the Group and its customers mainly in order to hedge the positions against the volatility in exchange rates and interest rates in the markets. See note 5.3.2 of the BRSA Interim Financial Statements and, for a breakdown of the Group's commitments arising from derivatives as of 31 December 2018, 2019 and 2020, see "Selected Statistical and Other Information – Derivative Transactions."

Governments in the United States, Europe and elsewhere have made or are expected to make changes in laws relating to derivatives transactions, including how they settle. The Bank's management does not anticipate that such changes will have a material adverse effect on its ability to obtain reasonably-priced hedges for its currency, interest rate and other risks; however, the volatility in the markets in recent years has made certain derivatives more expensive than in previous years and such increased costs might make the Group's hedging operations less cost-effective.

Capital Adequacy

Each of the Bank and the Group is required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures. In accordance with these guidelines, each of the Bank and the Group must maintain a total capital ratio in excess of 8% calculated in accordance with BRSA regulations. In addition, as a prudential requirement, the BRSA requires a target capital adequacy ratio that is 4% higher than the legal capital ratio (see "Turkish Regulatory Environment - Capital Adequacy" for further details).

In order to implement the rules of the report entitled "A Global Regulatory Framework for More Resilient Banks and Banking Systems" published by the Basel Committee in December 2010 and revised in June 2011 (*i.e*., Basel III) into Turkish law, the Equity Regulation and amendments to the then-existing capital adequacy regulation each entered into force on 1 January 2014. Subsequently, the BRSA replaced such capital adequacy regulation with the Capital Adequacy Regulation, which entered into force on 31 March 2016. The Equity Regulation defines capital of a bank as the sum of: (a) principal capital (*i.e*., Tier 1 capital), which is composed of core capital (*i.e.,* Common Equity Tier 1 capital) and additional principal capital (*i.e.*, additional Tier 1 capital) and (b) supplementary capital (*i.e.*, Tier 2 capital) *minus* capital deductions. Pursuant to the Capital Adequacy Regulation: (i) both the unconsolidated and consolidated minimum common equity Tier 1 capital adequacy ratios are 4.5% and (ii) both unconsolidated and consolidated minimum Tier 1 capital adequacy ratios are 6.0%; *however*, due to the application of certain requirements (including the D-SIBs requirements, which only applies on a consolidated basis), such ratios as they apply to the Bank as of the date of this Base Prospectus are 7.03% and 8.53%, respectively, on a Bank-only basis and 8.63% and 10.13%, respectively, on a Group basis.

In calculating its capital adequacy ratios, the Capital Adequacy Regulation allows the Bank to use ratings of eligible external credit assessment institutions (namely Fitch, S&P Global Ratings Europe Limited ("*S&P*"), Moody's, Japan Credit Rating Agency, Ltd., DBRS Ratings Ltd. and International Islamic Rating Agency) while calculating the risk-weighted assets for capital adequacy purposes. On 27 January 2017, Fitch (whose ratings the Bank has been using to calculate its risk-weighted assets) downgraded Turkey's sovereign credit rating to "BB+" (with a "stable" outlook) from "BBB-" (with a "negative" outlook). According to guidance published by the BRSA on 24 February 2017, foreign exchange-required reserves held with the Central Bank are subject to a 0% risk weight, which amendment offset the negative impact on capital adequacy that otherwise would have resulted from the Fitch downgrade. Each of S&P, Moody's and Fitch downgraded certain credit ratings of Turkey and the Bank in 2018, 2019 and/or 2020 (S&P no longer provides a credit rating for the Bank). See "The Group and its Business - Credit Ratings."

The Group maintains regulatory capital adequacy ratios on both a Bank-only and consolidated basis in excess of the regulatory minimums required and recommended levels. The Group's Tier 1 capital adequacy ratio increased from 14.2% as of 31 December 2018 to 15.4% as of 31 December 2019 and then decreased to 14.3% as of 31 December 2020 before decreasing further to 13.6% as of 30 September 2021 (15.8%, 17.0%, 15.8% and 15.1%, respectively, with respect to the Bank), whereas the Group's common equity Tier 1 capital adequacy ratio increased from 14.2% as of 31 December 2018 to 15.4% as of 31 December 2019 before decreasing to 14.3% as of 31 December 2020 and 13.6% as of 30 September 2021 (15.8%, 17.0%, 15.8% and 15.1%, respectively, with respect to the Bank). The Group's total capital adequacy ratio increased from 16.5% as of 31 December 2018 to 17.8% as of 31 December 2019 and then decreased to 16.9% as of 31 December 2020 and 16.1% as of 30 September 2021 (18.3%, 19.6%, 18.5% and 17.8%, respectively, with respect to the Bank). On 17 June 2021 (as revised on 16 September 2021), the BRSA announced that capital adequacy ratio calculations until such date as determined by the BRSA may be calculated using the arithmetic mean of the Central Bank's foreign exchange buying rates during the previous 252 business days as of the calculation date (and, though the Bank did not apply this potential forbearance) also that negative revaluation differences of securities classified under "financial assets measured at fair value through other comprehensive income" need not be included in the capital calculation. If such measure had not been taken into account, then the Group's total capital adequacy ratios as of 31 December 2020 and 30 September 2021 would decline to 17.4% and 15.7%, respectively (19.1% and 17.3%, respectively, with respect to the Bank).

The following table sets forth the calculation of the Group's capital adequacy ratios as of each of the indicated dates:

	As of 31 December			**As of 30 September**
	2018	**2019**	**2020**	**2021**
	(TL thousands, except percentages)			
Paid-in capital	4,200,000	4,200,000	4,200,000	4,200,000
Paid-in capital inflation adjustment	772,554	772,554	772,554	772,554
Reserves	32,977,973	39,612,929	45,869,743	51,793,288
Profit	6,641,652	6,164,914	6,513,366	8,996,824
Tier 1 Capital (I)	46,033,825	53,708,108	61,854,002	70,116,308
Tier 2 Capital (II)	7,538,990	8,450,176	11,161,116	13,102,542
Deductions (III)	14,041	7,930	1,884	520
Own Funds (I+II-III)	53,558,774	62,150,354	73,013,234	83,218,330
Risk Weighted Assets (including market and operational risk)	324,153,343	349,007,519	432,914,519	516,387,601
Capital Ratios:				
Tier 1 capital adequacy ratio	14.2%	15.4%	14.3%	13.6%
Common equity Tier 1 capital adequacy ratio	14.2%	15.4%	14.3%	13.6%
Total capital adequacy ratio	16.5%	17.8%	16.9%(1)	16.1%(1)

(1) On 17 June 2021 (as revised on 16 September 2021), the BRSA announced that capital adequacy ratio calculations until such date as determined by the BRSA may be calculated using the arithmetic mean of the Central Bank's foreign exchange buying rates during the previous 252 business days as

of the calculation date. If such measure had not been taken into account, then the Group's total capital adequacy ratios as of 31 December 2020 and 30 September 2021 would decline to 17.4% and 15.7%, respectively.

The significant increases in the Group's capital in 2019 and 2020 represented the growth in the Group's retained earnings despite the significant depreciation of the Turkish Lira. In the first nine months of 2021, the Group's capital continued to increase due to the income generated by the Group, which more than offset the impact of the depreciation of the Turkish Lira.

Liquidity and Funding

The Group manages its assets and liabilities to seek to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Liquidity risk represents the potential for loss as a result of limitations on the Group's ability to adjust future cash flows to meet the needs of depositors and borrowers and to fund operations on a timely and cost-effective basis. Financial obligations arise from withdrawals of deposits, repurchase transactions, extensions of loans or other forms of credit and the Group's own working capital needs.

The ability to maintain or replace interest-bearing deposits is a key factor in determining liquidity requirements, as well as the exposure to interest and exchange rate risks. The Group's principal sources of funding are short-term and demand deposits and the Group has developed a diversified and stable deposit base in each of its retail, commercial, corporate and SME business lines, including having one of the largest shares of the Turkish demand deposit market. The Bank's management believes that funds from the Group's deposit-taking operations generally will continue to meet its liquidity needs for the foreseeable future; *however*, maturities of large borrowings or securities offerings do from time to time require the Group to have sufficient liquidity on hand, which does require the Group to closely monitor market conditions for potential opportunities to obtain replacement financing on a cost-effective basis. As of 31 December 2018, 2019 and 2020 and 30 September 2021, the Group's loan-to-deposit ratio was 103.1%, 96.2%, 96.2% and 95.9%, respectively. For additional information on deposits, see "Selected Statistical and Other Information - Deposits."

To a lesser extent, the Group also funds its operations through short-term and long-term borrowings, eurobond issuances and other domestic and international transactions. The Bank uses the relationships that it develops with its correspondent banks in connection with international payment and trade-related finance activities to raise funds from the syndicated loan markets. The Bank has also capitalised on its ability to generate foreign currency-denominated payments from abroad (such as diversified payment rights) by tapping international capital markets through "future flow" transactions. See "Selected Statistical and Other Information – Funds Borrowed and Certain Other Liabilities."

The Bank may issue, from time to time, additional Series of notes under the Programme, which (as permitted by the Programme) may be in any currency, with any tenor and with any interest rate and which issuances may be listed or unlisted.

The Bank is subject to the BRSA's regulations on the measurement of the liquidity adequacy of a bank. The Regulation on Liquidity Coverage Ratios was published in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period. According to this regulation, the liquidity coverage ratio of banks is not permitted to fall below 100% on an aggregate basis and 80% on a foreign currency-only basis; *however*, pursuant to the BRSA decision dated 26 December 2014 (No. 6143) (the "*BRSA Decision on Liquidity Ratios*"), for a period starting from 5 January 2015 and ending on 31 December 2015, such ratios were applied as 60% and 40%, respectively. Furthermore, pursuant to the BRSA Decision on Liquidity Ratios, such ratios were increased by increments of ten percentage points for each year from 1 January 2016 until 1 January 2019. See "Turkish Regulatory Environment - Capital Adequacy."

The Group's simple averages of daily liquidity ratios for each of the last three months of the past three fiscal years and each month during the third quarter of 2021 are shown below:

	Turkish Lira + Foreign Currency	Foreign Currency
31 October 2018	166.20%	175.63%
30 November 2018	149.33%	138.61%
31 December 2018	163.06%	157.88%
31 October 2019	206.61%	220.36%
30 November 2019	202.15%	193.72%
31 December 2019	212.98%	207.47%
31 October 2020	173.00%	223.90%
30 November 2020	173.08%	300.94%
31 December 2020	176.92%	363.75%
30 July 2021	201.93%	348.06%
31 August 2021	192.95%	351.11%
30 September 2021	192.18%	362.14%

The following table sets out the calculation of the Group's period-end liquidity ratios for each of the past three fiscal years, including the "liquidity coverage ratios" that are applied to the applicable asset and liability category in determining (with respect to assets) how much liquidity the Group maintains and (with respect to liabilities) how much liquidity the Group is required to maintain:

	31 December 2018		31 December 2019		31 December 2020	
	TL + FC	Foreign Currency	TL + FC	Foreign Currency	TL + FC	Foreign Currency
	(TL thousands, except percentages)					
High-Quality Liquid Assets						
Total high-quality liquid assets	90,168,173	53,913,275	102,661,331	58,434,851	126,032,909	70,040,350
Cash Outflows						
Retail deposits and deposits from small business customers, of which	15,763,919	9,106,152	18,090,913	11,218,920	24,046,422	16,165,448
Stable deposits	1,308,579	21,079	1,802,748	38,976	2,061,124	61,577
Less stable deposits	14,455,340	9,085,073	16,288,165	11,179,944	21,985,298	16,103,871
Unsecured wholesale funding, of which	42,406,606	23,913,305	38,814,766	21,585,616	52,434,274	28,699,864
Non-operational deposits	28,071,155	18,524,043	25,042,213	16,891,126	36,990,764	22,256,103
Unsecured funding	14,335,451	5,389,262	13,772,553	4,694,490	15,443,510	6,443,761
Secured wholesale funding	-	-	99,823	-	538,803	-
Other cash outflows, of which	25,838,426	22,983,621	14,940,052	10,840,072	24,239,896	20,394,324
Outflows related to derivative exposures and other collateral requirements	22,357,173	22,411,751	5,207,995	6,681,664	11,786,346	14,967,811
Payment commitments and other off-balance sheet commitments granted for debts to financial markets	3,481,253	571,870	9,732,057	4,158,408	12,453,550	5,426,513
Other revocable off-balance sheet commitments and contractual obligations	30,899	24,313	32,025	23,868	64,532	30,329
Other irrevocable or conditionally revocable off-balance sheet obligations	3,625,805	2,479,392	593,215	581,772	711,683	690,137
Total Cash Outflows	**87,665,655**	**58,506,783**	**72,570,794**	**44,250,248**	**102,035,610**	**65,980,102**
Cash Inflows						
Secured receivables	-	-	-	-	-	-
Unsecured receivables	29,638,064	17,244,172	22,708,645	11,362,322	28,374,505	16,816,359
Other cash inflows	1,219,136	6,423,779	178,217	4,446,090	1,275,375	25,084,909
Total Cash Inflows	**30,857,200**	**23,667,951**	**22,886,862**	**15,808,412**	**29,649,880**	**41,901,268**
Total High-Quality Liquid Assets (HQLA)	**90,168,173**	**53,913,275**	**102,661,331**	**58,434,851**	**126,032,909**	**70,040,350**
Total Net Cash Outflows	**56,808,455**	**34,838,832**	**49,683,933**	**28,441,834**	**72,385,730**	**24,078,834**
Liquidity Coverage Ratio	**159.53%**	**157.37%**	**207.25%**	**207.18%**	**174.33%**	**296.20%**

The following table sets out similar information as of 30 September 2021:

	30 September 2021	
	TL + FC	Foreign Currency
	(TL thousands, except percentages)	
High-Quality Liquid Assets		
Total high-quality liquid assets	148,482,152	75,930,625
Cash Outflows		
Retail deposits and deposits from small business customers, of which	27,678,756	17,327,917
Stable deposits	2,416,205	69,293
Less stable deposits	25,262,551	17,258,624
Unsecured wholesale funding, of which	56,662,192	31,569,839
Non-operational deposits	42,347,677	27,826,761
Unsecured funding	14,314,515	3,743,078
Secured wholesale funding	345,544	-
Other cash outflows, of which	28,262,185	20,895,617
Outflows related to derivative exposures and other collateral requirements	12,592,677	14,395,895
Payment commitments and other off-balance sheet commitments granted for debts to financial markets	15,669,508	6,499,722
Other revocable off-balance sheet commitments and contractual obligations	236,350	204,443
Other irrevocable or conditionally revocable off-balance sheet obligations	879,987	868,898
Total Cash Outflows	**114,065,014**	**70,866,714**
Cash Inflows		
Secured receivables		
Unsecured receivables	37,527,362	21,919,306
Other cash inflows	507,298	27,703,314
Total Cash Inflows	**38,034,660**	**49,622,620**
Total High-Quality Liquid Assets (HQLA)	**148,482,152**	**75,930,625**
Total Net Cash Outflows	**76,030,354**	**21,244,093**
Liquidity Coverage Ratio	**195.69%**	**353.77%**

In addition to the liquidity ratios described above, the Bank is also required to maintain deposits with the Central Bank against a minimum reserve requirement. These reserve deposits are calculated on the basis of Turkish Lira and foreign currency liabilities taken at the rates determined by the Central Bank. The Turkish Lira reserve deposits started to provide interest monthly as of November 2014 and have been providing interest quarterly since January 2015, which interest is paid by the Central Bank on the first business day following the end of March, June, September and December. U.S. dollar reserve deposits have been providing interest since May 2015. The interest rates are calculated by the Central Bank according to market conditions.

The Group's banks in the Netherlands and Romania are also subject to similar reserve deposit requirements. For detailed information on the Group's reserve deposits requirements see note 5.1.1 to the Group's BRSA Interim Financial Statements.

Capital Expenditures

As a financial group, capital expenditures are not a material part of the Group's expenses and principally relate to expenses for branch expansion. The following table summarises the Group's capital expenditures for each of the indicated periods:

	2018	2019	2020
		(TL thousands)	
Real estate	1,016,562	126,770	37,470
Leased tangible assets	23,217	-	-
Right-of-use assets	-	1,595,125	555,822
Vehicles	4,626	5,097	9,187
Other tangible assets	597,535	273,251	783,787
Intangible assets	152,061	201,667	337,596
Total capital expenditures	**1,794,001**	**2,201,910**	**1,273,862**