**FIRST SUPPLEMENT dated 7 September 2023 to the Base Prospectus dated 18 July 2023**

# 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 dated18 July 2023 (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 six-month period ended 30 June 2023 (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 six-month period ended 30 June 2023 (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 three-month period ended 31 March 2023, 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_June_2023_Consolidated_Financial_Report.pdf, and (ii) with respect to the Issuer's New BRSA Financial Statements, https://www.garantibbvainvestorrelations.com/en/images/pdf/30_June_2023_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 independent auditors Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member firm of Ernst & Young Global Limited ("*EY*"). With respect to each of the BRSA Interim Financial Statements, EY has (*inter alia*) reported that they applied limited procedures in accordance with professional standards for review of such information; *however*, their report therein states that they did not audit and they do not express an opinion on interim financial contained within the BRSA Interim Financial Statements. Accordingly, the degree of reliance upon their report 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, EY's review report included in each of the New BRSA Financial Statements was qualified with respect to 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 Türkiye" 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 2022, (b) no significant change in the financial performance of the Group since 30 June 2023 to the date of this Supplement and (c) no significant change in the financial position of the Group since 30 June 2023.

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:

The BRSA Financial Statements of the Group and the Bank as of and for the three-month period ended 31 March 2023 incorporated into the Base Prospectus are hereby removed from, and shall hereafter not form part of, the Base Prospectus. In connection therewith, all financial information with respect to the Group (and any member thereof) and the Bank (including all related amounts, percentages and discussion) as of or for the three-month periods ended 31 March 2022 and 2023 are hereby deleted in their entirety from, and shall hereafter not form part of, 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 the years ended 31 December 2021 (including comparative information for 2020) and 2022 (including comparative information for 2021) (in each case, including any notes thereto and the independent auditor's audit report thereon) (the "*BRSA Annual Financial Statements*") and the Bank's consolidated and unconsolidated interim statutory financial statements as of and for the six-month period ended 30 June 2023 (including comparative information for the same period of 2022) (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.

### DOCUMENTS INCORPORATED BY REFERENCE

Clauses (a) and (d) of the fourth paragraph of the section titled "Documents Incorporated by Reference" on pages xv and xvi 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_June_2023_Unconsolidated_Financial_Report.pdf (with respect to the Bank's BRSA Interim Financial Statements as of and for the six months ended 30 June 2023),

> (d) https://www.garantibbvainvestorrelations.com/en/images/pdf/30_June_2023_Consolidated_Financial_Report.pdf (with respect to the Group's BRSA Interim Financial Statements as of and for the six months ended 30 June 2023),

### 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 Türkiye, being (as per published BRSA financial statements as of 30 June 2023) the second largest private banking group in Türkiye 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 Türkiye and customers from across the Turkish consumer market.

> The Group served approximately 24.0 million customers as of 30 June 2023 (per the Bank's internal definition: approximately 23.3 million retail customers, 637,505 SME customers, 41,374 active commercial customers and 3,271 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 June 2023, the Bank's services in Türkiye were provided through a nationwide network of 819 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 1,891 billion, performing loans (which excludes lease, factoring, non-performing receivables and expected credit losses) (as used herein, "cash loans") of TL 978,914,873 thousand and shareholders' equity of TL 188,531,873 thousand as of 30 June 2023. The Group's return on average shareholders' equity was 47.4% during 2022 and 39.6% during the first six months of 2023. As of 30 June 2023, the Group's total capital adequacy ratio was 15.81% (when calculated without including the BRSA's forbearance noted herein, 13.75% 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 6,715,352 thousand in 2020, TL 13,587,564 thousand in 2021 and TL 58,510,306 thousand in 2022 (TL 33,809,740 thousand during the first six months of 2023).

**RISK FACTORS**

The eighth and ninth sentences of the fifth paragraph of the section titled "Risk Factors - Risks Relating to Türkiye - Political Conditions - Political Developments" starting on page 10 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

After the presidential elections in May 2023, a new governor of the Central Bank and a new Minister of Treasury and Finance were appointed, after which the first meeting of the Central Bank's Monetary Policy Committee increased the rate to 15.00% and then raised it again to 17.50% in July 2023 and 25.00% in August 2023; *however*, as of 7 September, such rate remains well below the level of inflation. The Central Bank has actively employed other tools to seek to support the Turkish Lira's exchange rate even while maintaining the policy rate below the inflation rate.

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

After the presidential elections in May 2023, the Central Bank increased the rate to 15.00% and then, in July 2023, raised it again to 17.50%; *however*, as of 7 September, such rate remains well below the level of inflation.

The first paragraph of the section titled "Risk Factors - Risks Relating to Türkiye - Economic Conditions - Inflation" on page 18 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Turkish economy has been subject to significant increases in inflation in recent years, which might continue (including at elevated levels). In 2020, the annual consumer price index ("*CPI*") inflation rate was 14.60% and domestic producer price inflation was 25.15%, reflecting primarily an increase in food, energy and commodity prices (including due to the depreciation of the Turkish Lira). In 2021, the CPI inflation rate rose to 36.08%, reflecting primarily an increase in the prices of food, energy, consumer durables and transportation, which increases resulted from the depreciation of the Turkish Lira, the impact of disruptions in supply chains, the rise in government-administered prices and the reopening of the Turkish economy from COVID-19-related restrictions. In 2022, the CPI inflation rate was 64.3% and the domestic producer price inflation rate was 97.7%, with inflation then declining to 58.9% and 49.4%, respectively, for the 12 months ended August 2023 (it should be noted that this is the official inflation rate whereas other analysts have published different rates, in some cases significantly higher than the official rates), again reflecting significant increases in the prices of food, energy and imported products. On 27 July 2023, the Central Bank published an inflation report indicating an inflation forecast of 58.0%, 33.0% and 15.0% in 2023, 2024 and 2025, respectively, which was followed on 6 September 2023 by the government's publication of the newest Medium Term Programme for the country's economy, which anticipated inflation of 65.0%, 33.0% and 15.2% in 2023, 2024 and 2025, respectively. As of 7 September 2023, the Bank's management expects inflation to remain steady or slightly increase in the remainder of 2023, with inflation continuing at an elevated, or even higher, pace due to potential 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) and/or worsening inflation expectations. In addition, high inflation levels in Türkiye since 2022 matched with policy rates below the inflation rate have resulted in a de-linking of market interest rates in Türkiye from Central Bank rates since market participants set borrowing and lending rates on broader market conditions, including expectations regarding inflation.

The fourth and fifth sentences of 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 are hereby deleted in their entirety and replaced by the following:

> The NPL ratio then declined further to 2.2% as of 30 June 2023 also as a result of strong collection performance and high levels of loan growth. The Stage 2 loans as a percentage of performing loans increased from 17.2% as of 31 December 2020 to 17.4% as of 31 December 2021 before declining to 13.9% as of 31 December 2022 and then declining to 13.3% as of 30 June 2023 (the Stage 2 loans as a percentage of total loans changed from 16.4% to 16.8% to 13.6% to 13.0% during the same period), with the decline in 2022 being principally the result of the increase in the size of the loan portfolio (*i.e.*, a denominator effect).

The second, third, fourth and fifth paragraphs of the section titled "Risk Factors - Risks Relating to the Group and its Business - Credit Risks - Loan Concentrations" starting on page 23 of the Base Prospectus are hereby deleted in their 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 retail, infrastructure, energy and real estate sectors accounted for 32.0%, 9.1%, 7.4% and 3.8% respectively, of the Bank's gross loan portfolio as of 30 June 2023 (28.4%, 9.3%, 11.2% and 3.9%, respectively, as of 31 December 2022, 26.8%, 10.6%, 14.4% and 3.7%, respectively, as of 31 December 2021 and 26.6%, 9.9%, 14.5% and 3.5%, respectively as of 31 December 2020).
>
> As of 30 June 2023, 18.8% and 18.6% 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. Additionally, the Group's exposures to certain borrowers (particularly for loans for energy projects) are large and the Group is likely to continue making such large loans where such an investment is determined by the Group to be a credit-worthy transaction.
>
> The Group periodically sells portions of its NPL portfolio when market conditions were attractive to do so. In 2020, NPLs amounting to TL 147,010 thousand were sold, whereas in 2021 NPLs amounting to TL 665,407 thousand were sold and in 2022 NPLs amounting to TL 829,066 thousand were sold. In the first six months of 2023, there were no such sales. The effect of NPL sales on the NPL ratio was to reduce it by 0.04% in 2020, 0.13% in 2021 and 0.10% in 2022 (*i.e.*, the NPL ratio for such periods 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 5.6 billion, TL 10.6 billion, TL 12.0 billion and TL 14.0 billion of write-downs in 2020, 2021, 2022 and the first six months of 2023, respectively, accounting for a 1.46%, 1.96%, 1.46% and 1.30% decline in the NPL ratio, respectively.
>
> On a Bank-only basis (excluding credit card NPLs), SMEs (per the BRSA SME Definition) accounted for 9.2% of total NPLs as of 30 June 2023 (12.4% as of 31 December 2020, 10.6% as of 31 December 2021 and 9.9% as of 31 December 2022).

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 June 2023, 88.9% of the Group's total securities portfolio (12.5% of its total assets and equal to 125.3% of its shareholders' equity) was invested in Turkish government debt securities (90.3%, 14.2%, 120.7%, respectively, as of 31 December 2022, 83.4%, 10.2% and 107.7%, respectively, as of 31 December 2021 and 86.4%, 12.5% and 108.5%, respectively, as of 31 December 2020).

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 54.1% and 45.9%, respectively, as of 31 December 2020 to 48.8% and 37.9%, respectively, as of 31 December 2021. As of 31 December 2022, the balance increased from the end of the previous year, with Turkish Lira-denominated assets making up 55.5% of the Group's balance sheet and liabilities accounting for 50.8%. As of 30 June 2023, the proportions changed to 55.1% and 55.0%, respectively. The increases in 2021 and 2022 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 6.6% in 2021 and 9.8% in 2022). The increase in the share to Turkish Lira liabilities the first six months of 2023 reflects the acceleration in the Bank's Turkish Lira-denominated deposits and deceleration in the foreign currency deposits due to regulatory measures comprised in the Central Bank's Liraisation strategy. As the depreciation of the Turkish Lira leads to an increase in the Turkish Lira-equivalent of the Group's foreign currency-denominated risk-weighted assets, this might adversely affect the Group's capital adequacy ratios absent a corresponding increase in capital or additional risk mitigation measures.

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 June 2023, 38.4% of the Group's total loans to customers was denominated in foreign currencies (39.4%, 45.3% and 35.9%, respectively, as of 31 December 2020, 2021 and 2022), of which 43.4% was in U.S. dollars and 52.4% was in euro.

The second sentence of 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:

Net interest income is the principal source of income for the Group, contributing 64.7%, 58.6%, 66.1% and 42.3% of the Group's total operating income before provisions for 2020, 2021 and 2022 and the first six months of 2023, respectively, and the Group's net interest margin was 6.1%, 6.5%, 9.1% and 5.7%, respectively, over the same periods (6.6%, 6.7%, 11.1% and 5.9%, 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 2020, 2021, 2022 and the first six months of 2023 accounting for 16.6%, 17.0, 31.3% and 21.5%, respectively, of its total interest income and 11.9%, 11.5%, 22.5% and 12.9%, 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 96.2%, 84.3%, 84.7% and 72.6%, respectively, as of 31 December 2020, 2021 and 2022 and 30 June 2023.

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 (*i.e.*, the sum of funds borrowed, money market borrowings and securities issued, noting that this excludes subordinated debt instruments) was equivalent to 13.9%, 14.1%, 10.4% and 9.1%, respectively, of its assets as of 31 December 2020, 2021 and 2022 and 30 June 2023.

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) equaled 13.9%, 14.1%, 10.4% and 9.1%, respectively, of its assets as of 31 December 2020, 2021 and 2022 and 30 June 2023. 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 Türkiye decreases as a result of political, economic or other factors). As of 30 June 2023, the Group had free foreign currency liquidity (including unencumbered foreign currency securities) amounting to US$4.8 billion while having US$1.4 billion in foreign currency-denominated external debt to be paid within one year (an additional US$2.8 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 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 2020, the Bank's management increased the general reserves by TL 2,150,000 thousand (to TL 4,650,000 thousand), increasing them again by TL 2,850,000 thousand in 2021 (to TL 7,500,000 thousand) and by TL 500,000 thousand in 2022 (to TL 8,000,000 thousand), in each case due to the possible effects of negative circumstances that might arise in the economy or in market conditions. During the first six months of 2023, the Bank's management (in light of the normalisation of the macro-economic conditions after the May 2023 elections) reversed TL 2,000,000 thousand of such general reserves, resulting in outstanding general reserves of TL 6,000,000 thousand as of 30 June 2023.

**USE OF PROCEEDS**

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

**SUMMARY FINANCIAL AND OTHER INFORMATION**

The section titled "Summary Financial and Other Information" starting on page 53 of the Base Prospectus is hereby deleted in its entirety and replaced by the section set out on Exhibit B.

**CAPITALISATION OF THE GROUP**

The section titled "Capitalisation of the Group" on page 55 of the Base Prospectus is hereby deleted in its entirety and replaced by the section set out on Exhibit C.

**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 56 of the Base Prospectus is hereby deleted in its entirety and replaced by the section set out on Exhibit D.

**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 123 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 Türkiye, being (as per published BRSA financial statements as of 30 June 2023) the second largest private banking group in Türkiye in terms of total assets. The Group's customers are comprised mainly of commercial enterprises, SMEs, foreign multinational corporations with operations in Türkiye and customers from across the Turkish consumer market.

The Group served approximately 24.0 million customers as of 30 June 2023 (per the Bank's internal definition: approximately 23.3 million retail customers, 637,505 SME customers, 41,374 active commercial customers and 3,271 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 June 2023, the Bank's services in Türkiye were provided through a nationwide network of 819 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 Romania).

The Group had total assets of TL 1,891 billion, performing loans (which excludes lease, factoring, non-performing receivables and expected credit losses) (as used herein, "cash loans") of TL 978,914,873 thousand and shareholders' equity of TL 188,531,873 thousand as of 30 June 2023. The Group's return on average shareholders' equity was 47.4% during 2022 and 39.6% during the first six months of 2023. As of 30 June 2023, the Group's total capital adequacy ratio was 15.81% (when calculated without including the BRSA's forbearance noted herein, 13.75% 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 6,715,352 thousand in 2020, TL 13,587,564 thousand in 2021 and TL 58,510,306 thousand in 2022 (TL 33,809,740 thousand during the first six months of 2023).

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 126 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 819 as of 30 June 2023) 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 309.3 billion of Turkish Lira deposits and US$10.3 billion of foreign currency deposits as of 30 June 2023.

*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, was TL 62.5 billion as of 31 December 2020, increasing by 35% to TL 84.5 billion as of 31 December 2021, further increasing by 42% to TL 120.5 billion as of 31 December 2022 and then increasing by 27.0% to TL 153.5 billion as of 30 June 2023. The Bank's primary consumer loan products are described below:

- *Mortgages*: In 2021, the retail mortgage loan book increased by 17.6% and then decreased by 11.3% in 2022, followed by a 35.9% increase in the first six months of 2023. 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 60.10% as of 30 June 2023. The average original term of its mortgages on such date was 8.6 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 7.9% (with respect to outstanding mortgage loan balance for consumer loans) as of 30 June 2023 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 2021 and 2022, the Bank's vehicle loan book increased by 42% and (in part as a result of the Bank's new partnerships with large automotive firms) 147%, respectively, followed by an increase of 16% during the first six months in 2023. The Bank's market share (by outstanding balance) was 14.5% as of 30 June 2023 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 38.6% and 60.0%, respectively, in 2021 and 2022 and then further increased by 23.0% during the first six months of 2023. The Bank's market share (including overdraft, by outstanding balance) was 13.2% as of 30 June 2023 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 June 2023, the number of overdraft accounts operated by the Group was approximately 5.0 million, with an aggregate overdraft risk of TL 19.8 billion.

*Investment Products*. The Bank's retail banking investment products include mutual funds, government bonds and equity securities. As of 30 June 2023, the Bank had TL 186.9 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 132 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 Türkiye, 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)] | **2020** | **2021** | **2022** | **30 June 2023** |
| Türkiye Garanti Bankası | N/A | 83.1% | 81.5% | 81.1% | 81.0% |
| GBI | 100% | 5.2% | 6.6% | 7.1% | 7.4% |
| GHBV and Romania businesses[(3)] | 100% | 3.7% | 4.1% | 4.2% | 4.4% |
| Garanti Leasing | 100% | 1.0% | 1.0% | 1.2% | 1.2% |
| Garanti BBVA Factoring | 81.84% | 0.5% | 0.5% | 0.7% | 0.7% |
| Garanti BBVA Pension and Life | 84.91% | 0.5% | 0.3% | 0.4% | 0.3% |
| Garanti BBVA Securities | 100% | 0.3% | 0.3% | 0.3% | 0.5% |
| Garanti Asset Management | 100% | 0.0% | 0.0% | 0.0% | 0.0% |
| Garanti Payment Systems | 100% | 0.0% | 0.0% | 0.0% | 0.0% |
| *Structured Entities*[(2)] | | | | | |
| Garanti Diversified Payment Rights Finance Company | 0% | 3.8% | 3.7% | 2.9% | 2.6% |
| RPV Company | 0% | 1.9% | 2.0% | 2.1% | 1.9% |

| Net Profit/(Loss)[4] | Ownership[1] | For the year ended 31 December 2020 | 2021 | 2022 | For the six months ended 30 June 2023 |
|---|---|---|---|---|---|
| Türkiye Garanti Bankası | N/A | 83.8% | 85.5% | 91.2% | 85.7% |
| Garanti BBVA Pension and Life | 84.91% | 5.9% | 4.0% | 1.6% | 2.1% |
| GHBV and Romania businesses[3] | 100% | 1.8% | 2.0% | 1.0% | 1.2% |
| GBI | 100% | 0.6% | 1.1% | 1.1% | 2.8% |
| Garanti BBVA Securities | 100% | 6.3% | 3.2% | 1.9% | 3.3% |
| Garanti BBVA Factoring | 81.84% | 0.6% | 0.8% | 0.5% | 1.2% |
| Garanti Leasing | 100% | 1.9% | 1.3% | 2.2% | 3.5% |
| Garanti Asset Management | 100% | 0.8% | 0.4% | 0.2% | 0.4% |
| Garanti Payment Systems | 100% | 0.0% | 0.0% | 0.1% | 0.1% |
| *Structured Entities[2]* | | | | | |
| Garanti Diversified Payment Rights Finance Company | 0% | (1.7)% | 1.7% | 0.2% | (0.3)% |
| RPV Company | 0% | 0.0% | 0.0% | 0.0% | 0.0% |

(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 NV*

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 Türkiye. 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 €6.8 million in 2020, €18.0 million in 2021, €40.8 million in 2022 and €51.7 million during the first six months of 2023. GBI's total assets amounted to €3,430 million as of 31 December 2020, €4,130 million as of 31 December 2021, €5,106 million as of 31 December 2022 and €5,413 million as of 30 June 2023.

*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 1,293,998 participants, had a market share of 15.8% (second among non-governmental companies, and third overall, in the market) in the pension business as of 30 June 2023 according to the Pension Monitoring Centre (*Emeklilik Gözetim Merkezi*).

Garanti BBVA Pension and Life managed a portfolio of TL 71,267.3 billion as of 30 June 2023 and held a 13.5% 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. As of 30 June 2023, the company had 1,479,147 participants in its auto-enrollment system, which placed it first among non-governmental companies in the market according to the Pension Monitoring Centre.

In the life insurance business, as of 30 June 2023 the company serviced 3.9 million insurance policyholders. Garanti BBVA Pension and Life's direct premium production increased by 77.09% in 2022 (to TL 2,579.5 million), following a 31.02% increase in 2021 (to TL 1,456.7 million from TL 1,111.8 million in 2020), whereas in the first six months of 2023 there was TL 2,202.4 million in direct premium. The company had a market share of 8.9% as of 30 June 2023 as published by the Insurance Association of Türkiye (*Türkiye Sigorta Birliği*). Garanti BBVA Pension was the third most profitable private company in the sector during 2022 according to the Insurance Association of Türkiye.

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 463,150 thousand in 2020, TL 634,738 thousand in 2021, TL 999,358 thousand in 2022 and TL 845,161 thousand during the first six months of 2023. The six months of 2023 included claims of TL 56.2 million relating to the February 2023 earthquakes; *however*, after reinsurance, the company's liability is expected to be significantly less.

*Garanti Leasing*

In 1990, the Bank established a leasing company, Garanti Finansal Kiralama A.Ş. ("*Garanti Leasing*"). In 2022, Garanti Leasing executed 1,272 new financial leasing deals (principally for the leases of business and construction machines) and recorded a total of US$459 million in new leases, as compared to 1,739 new financial deals (US$553 million in new leases) in 2021 and 1,097 new financial leasing deals (US$370 million in new leases) in 2020. During the first six months of 2023, Garanti Leasing executed 894 new financial leasing deals (principally for the leases of business and construction machines) and recorded a total of US$310.0 million in new leases. As of June 2023, the company had a market share of 11.4% for new contracts and a 12.4% 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 5,846,989 thousand as of 31 December 2020, TL 10,696,881 thousand as of 31 December 2021, TL 16,582,551 thousand as of 31 December 2022 and TL 24,326,608 thousand as of 30 June 2023.

Garanti Leasing had a net profit/(loss) of TL 146,351 thousand in 2020, TL 705,121 thousand in 2021, TL 1,412,789 thousand in 2022 and TL 1,407,651 thousand in the first six months of 2023.

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*

G Netherlands BV ("*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 June 2023, G Netherlands had investments in three Romanian companies specialising in financial services: Garanti BBVA Romania (99.9964%), which provides banking activities; Motoractive IFN SA ("*Motoractive*") (99.99997%), which provides financial leases; and Ralfi IFN SA ("*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 that was 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 June 2023, 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 435,890 customers (as of 30 June 2023) from the retail, SME and corporate segments. With 296,641 credit and debit cards and 9,491 active (15,484 in total) POS terminals as of such date, Garanti BBVA Romania had a market share of 1.4% (including non-banking financial institutions) in the issued credit cards market and 4.15% in POS terminals in Romania, both according to the public figures available from the Romanian National Bank as of 31 December 2022.

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 1,623 customers with 4,313 active contracts as of 30 June 2023 and has an extensive partnership network.

Ralfi's main activity is to provide consumer loans, particularly sales finance and personal loans. As of 30 June 2023, Ralfi had 20,982 clients.

The consolidated asset size of GHBV was €2.4 billion as of 31 December 2020, €2.6 billion as of 31 December 2021, €3.0 billion as of 31 December 2022 and €3.2 billion as of 30 June 2023. GHBV contributed €18.9 million to the Group's consolidated net profit/(loss) in 2020, €32.1 million in 2021, €38.9 million in 2022 and €22.0 million in the first six months of 2023.

*Garanti BBVA Factoring*

Garanti Faktoring A.Ş. ("*Garanti BBVA Factoring*"), founded in 1990, is one of Türkiye's oldest factoring companies. As of 7 September 2023, 81.8% of the company's shares are owned by the Bank, 9.78% of its shares are owned by Export Credit Bank of Türkiye and the remaining shares are traded on the Borsa İstanbul. With a broad customer base, Garanti BBVA Factoring makes use of the Bank's delivery channels to provide high-quality factoring products and services to its customers. The company recorded US$1.8 million in volume of receivables financed through factoring in 2020, US$1.9 million in 2021, US$1.9 million in 2022 and US$1.3 million in the first six months of 2023, representing a market share of 8.2% as of 30 June 2023 in Türkiye according to the BRSA.

Garanti BBVA Factoring had a net profit/(loss) of TL 50,150 thousand in 2020, TL 131,936 thousand in 2021, TL 350,742 thousand in 2022 and TL 481,039 thousand during the first six months of 2023. The company's total assets amounted to TL 2,912,563 thousand as of 31 December 2020, TL 4,355,909 thousand as of 31 December 2021, TL 9,670,054 thousand as of 31 December 2022 and TL 13,225,966 thousand as of 30 June 2023.

*Garanti BBVA Securities*

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

Garanti BBVA 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 June 2023, Garanti BBVA Securities provided brokerage services to 856,326 customers. In the first six months of 2023, the company's market share in the equity market was 5.3% (ranking fourth) while its derivatives market share was 3.2% (ranking ninth). In 2022, the company's equity market share was 5.4% (ranking fourth) while its derivatives market share was 4.3% (ranking sixth).

In 2022, foreign exchange client transaction volume decreased to US$9.2 billion from US$15.3 billion in 2021, which itself had decreased from US$23.7 billion in 2020. The reason for the decrease in volume in 2021 and 2022 was the decrease in the number of clients (from 696 in 2020 to 513 in 2021 and 323 in 2022). During the first six months of 2023, the foreign exchange client transaction volume was US$4.7 billion (with 202 customers).

Garanti BBVA Securities' international markets client transaction volume decreased from US$25.3 billion in 2020 to US$20.0 billion in 2021 and US$12.7 billion in 2022. The decrease in 2021 was mainly due to customers' expectations of an upward momentum in the markets and the resultant desire to maintain their positions, whereas the change in 2022 was primarily caused by unwinding future contracts as a result of the company's risk measures due to volatility in the commodity market and the sell-off in global markets that, which caused a sharp decrease in volume. Although the transaction volume decreased in 2021 and 2022, the number of customers increased from 4,317 in 2020 to 5,686 in 2022. During the first six months of 2023, Garanti BBVA Securities' international markets client transaction volume was US$6.8 billion (with 3,315 customers).

As one of the leading investment banks, Garanti BBVA Securities has successfully completed numerous mergers and acquisition, equity offerings, debt offerings and privatisation transactions, with a total transaction size of more than $77 billion from its establishment in May 1991 through 30 June 2023 (US$634 million in 2022 alone and US$747 million in the first six months of 2023).

From the beginning of 2016, Garanti BBVA 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 312.7 billion in volume in 2020 on the futures and options market, TL 51.0 billion in 2021, TL 81.0 billion in 2022 and TL 25.0 billion in the first six months of 2023. Garanti BBVA Securities held an 8.9% market share in the options market and a 3.2% market share in the "Vadeli İşlem ve Opsiyon Piyasası" ("*VIOP*") futures market during the first six months of 2023, while the market shares in the index options and VIOP options markets were 12.3% and 4.3%, respectively, in full year 2022.

*Garanti Asset Management*

Founded in June 1997 as the first asset management company in Türkiye, Garanti Portföy Yönetimi A.Ş. ("*Garanti Asset Management*") is a wholly owned subsidiary of the Bank. As of 30 June 2023, Garanti Asset Management managed 105 mutual funds, in which Garanti Asset Management is also the owner/issuer, 43 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 9.5% as of 30 June 2023 according to Rasyonet, a third-party data vendor. As of such date, total assets under management amounted to TL 109 billion and, according to Rasyonet), the market share of pension funds was 14.8%. The mutual funds managed by the company had a market value of US$4.0 billion as of 30 June 2023. 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 139 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

As of 30 June 2023, the total net book value of the Group's tangible assets (net) (which includes land, buildings and furniture) was TL 16.9 million, which was 0.9% of its total assets. The Group maintains comprehensive insurance coverage on all of the real estate properties that it owns.

## MANAGEMENT

The third paragraph in the section titled "Management - Compensation" on page 159 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 116,069 thousand during 2020, TL 136,828 thousand during 2021, TL 284,600 thousand during 2022 and TL 187,409 thousand during the first six months of 2023, including compensation paid to key management personnel who left their position during the period.

## RELATED PARTY TRANSACTIONS

The first table in the section titled "Related Party Transactions" on page 163 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

| | As of 31 December | | | As of |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 30 June 2023 |
| **BBVA Group** | *(TL thousands, except percentages)* | | | |
| Cash loans | 879,749 | 620,298 | 1,362,913 | 3,790,994 |
| As a % of assets | 0.2% | 0.1% | 0.1% | 0.2% |
| As a % of shareholders' equity | 1.4% | 0.8% | 0.9% | 2.0% |
| Contingent obligations | 957,567 | 2,036,186 | 2,859,301 | 4,062,936 |
| As a % of contingent obligations | 1.2% | 1.5% | 1.2% | 1.2% |
| As a % of shareholders' equity | 1.5% | 2.6% | 1.9% | 2.2% |
| **Total BBVA Group Exposure** | **1,837,316** | **2,656,484** | **4,222,214** | **7,853,930** |

The second table in the section titled "Related Party Transactions" on page 163 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

| As of 31 December | | | As of |
|---|---|---|---|
| 2020 | 2021 | 2022 | 30 June 2023 |
| | (*TL thousands*) | | |
| 32,102,296 | 43,447,084 | 57,772,444 | 70,161,309 |

The third table in the section titled "Related Party Transactions" on page 163 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

| As of 31 December | | | As of |
|---|---|---|---|
| 2020 | 2021 | 2022 | 30 June 2023 |
| | (*TL thousands*) | | |
| 859,935 | 7,268,435 | 6,806,956 | 8,079,361 |

## TURKISH REGULATORY ENVIRONMENT

The first sentence of the fifth paragraph of the section titled "Turkish Regulatory Environment – Capital Adequacy" starting on page 173 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

The Capital Adequacy Regulation also lowered the risk weights of certain assets and credit conversion factors, including reducing: (a) the risk weights of residential mortgage loans from 50% to 35% (on 24 August 2023, the BRSA increased the risk weightings to 150% for residential mortgage loans extended to individuals who already had at least one residential property, either personally or through their spouses or children under 18 years of age), (b) the risk weights of consumer loans (excluding residential mortgage loans) qualifying as retail loans (*perakende alacaklar*) in accordance with the Capital Adequacy Regulation and instalment payments of credit cards from a range of 100% to 250% (depending upon their outstanding tenor) to 75% (irrespective of their tenor) (on 31 July 2023, the BRSA increased the risk weighting for consumer credit cards (including cash withdrawals and spending) and consumer cash loans (excluding mortgage loans and including overdraft accounts) issued after 31 July 2023 to 150%); *provided* that such receivables are not reclassified as NPLs, and (c) the credit conversion factors of commitments for credit cards and overdrafts from 20% to 0%.

The sixth paragraph of the section titled "Turkish Regulatory Environment – Capital Adequacy" on page 174 of the Base Prospectus is hereby deleted in its entirety.

The following paragraph is hereby inserted after the eighth paragraph to the section titled "Turkish Regulatory Environment – Capital Adequacy" on page 174 of the Base Prospectus:

On 31 July 2023, the BRSA increased the risk weightings for: (a) credit card instalment payments (including cash withdrawals and spending), (b) consumer cash loans (including overdraft accounts, auto loans for passenger cars and auto secured loans) and (c) financial leasing transactions with consumers to 150% for the loans issued after 31 July 2023; *however*, such increased risk weightings shall not be applied to customers located in the cities affected by such earthquakes until 1 January 2024. On 24 August 2023, the BRSA increased the risk weightings to 150% for residential mortgage loans extended to individuals who already had at least one residential property, either personally or through their spouses or children under 18 years of age.

The tenth, eleventh and twelfth paragraphs of the section titled "Turkish Regulatory Environment – Liquidity and Reserve Requirements" on page 182 of the Base Prospectus are hereby deleted in their entirety and replaced by the following:

From 8 July 2023, if a bank's Turkish Lira share of either its total consumer or company deposits is: (a) from 50% to below 57%, then such bank must pay a fee to the Central Bank equal to 3% of the reserves required to be held by it with respect to all of its foreign exchange deposits, or (b) below 50%, then such fee rate is increased to 8%.

On 15 January 2023, the Central Bank amended the Communiqué Regarding Reserve Requirements so that (starting with the maintenance period starting on 3 February 2023), the reserve requirement rate for Turkish Lira deposit accounts and participation accounts held by certain customers with maturities longer than three-months is 0%. Additionally, should there be an increase (compared to 6 January 2023, based upon a calculation to be made on the last Friday of every two-week period) in a bank's foreign currency-denominated liabilities with maturities longer than six months provided directly from abroad, the reserve requirement rate for such increased amount is 0% until 22 December 2023. On 21 July 2023, the Central Bank amended the Communiqué Regarding Reserve Requirements (effective as of 21 July 2023) to oblige banks to hold mandatory reserves at the rate of 15% for the foreign exchange-protected Turkish Lira-denominated deposit accounts regardless of their maturities. On 20 August 2023, the Central Bank amended the Communiqué Regarding Reserve Requirements (effective as of 18 August 2023) to increase reserve requirement ratios for foreign currency-denominated deposits and participation funds (excluding those obtained from banks abroad) on demand or with a maturity up to (and including) one month from 25% to 29%.

Pursuant to the Regulation on the Maintenance of Securities, effective from 24 June 2022, each Turkish bank is required to hold with the Central Bank long-term Turkish Lira-denominated securities issued by the Turkish government (including lease certificates issued by Undersecretariat of Treasury Asset Leasing Company) for the foreign currency deposits, participation funds and precious metals accounts held with such bank (excluding those of certain depositors, including the Central Bank itself, the Turkish Treasury, certain other governmental entities, other Turkish banks and non-citizens, and such deposits/funds/accounts funded by foreign direct investments as determined by the Central Bank) as well as the funds from foreign exchange-denominated repo transactions. Pursuant to an amendment to the Communiqué on the Maintenance of Securities made on 25 June 2023 (as itself amended on 20 August 2023), each Turkish bank is required to hold an amount of such securities equal to 5% of the amount of the foreign currency deposits, participation funds and precious metals accounts held by the relevant customers with such bank as well as the funds from foreign exchange-denominated repo transactions.

Through clause (iii) thereof, the thirteenth paragraph of the section titled "Turkish Regulatory Environment – Liquidity and Reserve Requirements" on page 183 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

On 20 August 2022, 31 December 2022 and 25 July 2023, the Central Bank amended the Regulation on the Maintenance of Securities to: (a) require Turkish banks to hold with the Central Bank long-term Turkish Lira-denominated securities issued by the Turkish government in an amount equal to 30% of the amount of the securities issued by entities (other than financial institutions) held by such banks, (b) replace the Commercial Cash Loan Reserve Requirement with a requirement to hold with the Central Bank long-term Turkish Lira-denominated securities issued by the Turkish government in an amount equal to 30% of the amount of such Turkish Lira-denominated commercial cash loans (excluding the loans previously excluded from the Commercial Cash Loan Reserve Requirement as noted above only if such loans are disbursed against expenditures) and (c) provide that if:

(i) a bank's Turkish Lira-denominated commercial cash loan growth (excluding such excluded loans) during each calculation period from 26 August 2022 to 25 November 2022 compared to the previous calculation period was higher than 3%, then such bank is required to hold (for a 12-month period) with the Central Bank long-term Turkish Lira-denominated securities issued by the Turkish government in an amount equal to the amount over such 3%,

(ii) a bank's Turkish Lira-denominated commercial cash loan (excluding such excluded loans) growth as of 30 December 2022 compared to 29 July 2022 is higher than 10%, then such bank is required to hold (for a 12-month period) with the Central Bank long-term Turkish Lira-denominated securities issued by the Turkish government in an amount equal to the amount over such 10% *minus* the amount already held as required by clause (i), and

(iii) a bank's Turkish Lira-denominated commercial cash loan growth (excluding such excluded loans) during each calculation period from 27 January 2023 to 29 December 2023 compared to the previous calculation period was higher than 2.5% for commercial loans, then such bank is required to hold (for a 12-month period) with the Central Bank long-term Turkish Lira-denominated securities issued by the Turkish government in an amount equal to the amount over such rate.

The fourteenth paragraph of the section titled "Turkish Regulatory Environment – Liquidity and Reserve Requirements" on page 183 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

With respect to commercial loans extended from 31 December 2022, banks are required (based upon a calculation to be made on the last Friday of every month) until 29 December 2023 to hold with the Central Bank long-term Turkish Lira-denominated securities issued by the Turkish government in an amount equal to 20% or 150% of the amount of Turkish Lira-denominated commercial cash loans (excluding such excluded loans) extended during such month depending upon their annual compound interest rate. In May 2023, the Central Bank introduced new rules for credit growth for consumer loans, vehicle loans, SME loans and loans subject to the Commercial Cash Loan Reserve Requirement, which rules provide that, if any of such loan types grows more than 3% per month, the applicable bank will be required to hold with the Central Bank long-term Turkish lira-denominated securities issued by the Turkish Treasury in an amount equal to the excess of loans over the 3% growth rate (reduced in August 2023 to 2.5% for Turkish Lira-denominated commercial cash loans (excluding export, investment, agricultural and tradesmen loans), 2.0% for vehicle loans and 2.5% for other Turkish Lira denominated cash loans excluding consumer loans). On 20 August 2023 the Central Bank further amended the Regulation on the Maintenance of Securities (effective as of 26 August 2023) and required banks to hold such securities in an amount equal to 150% for their Turkish Lira-denominated commercial cash loans (excluding export and investment loans) extended (based upon a calculation to be made on the last Friday of every month) until (and including) 29 December 2023 at an annual compound interest rate that is higher than the Central Bank-released annual compound reference rate.

The sixteenth and seventeenth paragraphs of the section titled "Turkish Regulatory Environment – Liquidity and Reserve Requirements" on page 184 of the Base Prospectus are hereby deleted in their entirety.

The last paragraph at the end of the section titled "Turkish Regulatory Environment – Liquidity and Reserve Requirements" starting on page 184 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

On 20 August 2023, as a provisional measure effective from 26 August 2023, the Central Bank has required each Turkish bank (except banks whose deposit/participation fund size is below an amount determined by the Central Bank from time to time) to hold (for a six-month period) additional Turkish Lira-denominated securities issued by the Turkish government equal to the amount of the deficient portion (based upon a calculation to be made as of the last Friday of every month through 29 December 2023) if: (a) the conversion rate of foreign exchange protected accounts that mature through 29 December 2023 to Turkish Lira term deposit/participation accounts is less than 50% and/or (as calculated for real persons only) is less than 5% per monthly calculation period, (b) the renewal rate of foreign exchange protected accounts is less than 95% and/or (c) the share of Turkish Lira deposits/participation accounts (as calculated only for real persons) is less than 2% below the share of to the previous calculation period and the share of Turkish Lira deposits/participation accounts (as calculated only for legal entities) is less than the share calculated on 18 August 2023.

## TAXATION

The eleventh paragraph of the section titled "Taxation - Certain Turkish Tax Considerations" on page 286 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

Capital gains realised by a resident corporation or individual on the sale or redemption of the Notes (or beneficial interests therein) are subject to income tax or corporate (income) tax declaration. The corporate income tax rate in Türkiye for 2023 is: (a) 30% for banks, financial leasing, factoring and financing companies, e-money and payment services institutions, authorised foreign exchange currency-related entities, asset management companies (*varlık yönetim şirketleri*), securities intermediaries and other capital markets institutions, insurance and reinsurance companies and pension companies and (b) 25% for other corporate entities (the rate for individuals' income tax ranges from 15% to 40% at progressive rates). Capital gains are, in principle, calculated in local currency terms and resident individuals' acquisition costs can be increased at the Producer Price Index's rate of increase for each month except for the month of discharge, so long as such index increased by at least 10%.

## EXHIBIT A

## USE OF PROCEEDS

The Bank will incur various expenses in connection with the issuance of each Tranche of the Notes, including (as applicable) underwriting fees, legal counsel fees, rating agency expenses and listing expenses. The net proceeds of each issue of Notes (the estimated amount of which net proceeds will, for each Series listed on a regulated market in the EEA, be set out in the applicable Final Terms or Pricing Supplement) will be applied by the Bank for its general corporate purposes; *however*, for any particular Series, the Bank may agree (and so specify in the Final Terms or Pricing Supplement for the Tranche(s) of such Series) with the relevant Dealer(s) or investor(s) that the proceeds of the issuance of the applicable Notes shall be used for one or more specific purpose(s), such as environmental development or sustainability. The use of proceeds, if any, provided in the Final Terms or Pricing Supplement for each Tranche in a Series with more than one Tranche shall be the same.

In addition, where the "Reasons for the Offer and Estimated Net Proceeds" in Part B of the applicable Final Terms or "Reasons for the Offer" in Part B of the applicable Pricing Supplement are stated to be for "green," "social" or "sustainability" purposes as described in this "Use of Proceeds" section ("*Green Bonds*," "*Social Bonds*" and "*Sustainability Bonds*," respectively, and together the "*Sustainable Notes*"), the net proceeds (or an amount equal to the net proceeds) of each issue of Sustainable Notes will (or, as of the applicable Issue Date, will be intended to) be used as so described. For each Series of Sustainable Notes, such amount is expected to be applied by the Issuer on a portfolio basis in financing (including refinancing) Eligible Projects falling within any of the Green Eligible Categories ("*Green Eligible Projects*" or "*Eligible Green Projects*") or the Social Eligible Categories ("*Social Eligible Projects*" or "*Eligible Social Projects*") (both as defined below and further described in the "Sustainable Debt Financing Framework" published on the Bank's website (as of the date of this Base Prospectus, https://www.garantibbvainvestorrelations.com/en/images/pdf/Garanti-BBVA-sustainable-debt-financing-framework.pdf) (as amended, supplemented or otherwise updated from time to time, the "*SDG Bond Framework*")) (together, the "*Eligible Loans*"), including the provision of new Eligible Loans and the refinancing of existing projects. Please note that this has no connection to the terms of any Sustainable Notes, including any impact on the pricing or redemption of such Sustainable Notes. The Issuer, as a member of the BBVA Group, adheres to the SDG Bond Framework (as if references to BBVA therein were to the Issuer), though with some modifications to integrate within the Turkish legal context and the Issuer's own structure. References in the SDG Bond Framework to "proceeds" or "net proceeds" of bonds issued thereunder shall be understood to include also a reference to an amount equal to the net proceeds of such bonds.

In the case of Green Bonds, such financing (including refinancing) shall be of Green Eligible Projects; in the case of Social Bonds, such financing (including refinancing) shall be of Social Eligible Projects; and in the case of Sustainability Bonds, such financing (including refinancing) shall be of Green Eligible Projects and/or Social Eligible Projects. Such Green Eligible Projects and Social Eligible Projects do not include certain excluded and/or prohibited activities, including (without limitation) within the defense, mining, energy, infrastructure and agribusiness sectors, all as reflected in the Bank's Environmental & Social Framework, which (as of 7 September 2023) may be found at https://www.garantibbvainvestorrelations.com/en/environment-social-governance/detail/Environmental-and-Social-Loan-Policies/853/3629/0.

It should be noted that the proceeds of any Eligible Loans may be for specific assets and projects or to "pure play" companies, the proceeds of which loans could be used by such entity for its general corporate purposes. If a loan or other project allocated to any Series of Sustainable Notes ceases to comply with the applicable eligibility criteria, then the Issuer intends to substitute it with an Eligible Loan as soon as reasonably practicable.

Pending the allocation to Eligible Loans of an amount equal to the net proceeds of any Sustainable Notes, such amount is (as indicated in the SDG Bond Framework) intended to be allocated by the Issuer to its treasury liquidity portfolio (*i.e.*, in cash and/or in other short-term and liquid investments).

Within 12 months of the Issue Date of each Tranche of Sustainable Notes and at least once a year until the relevant maturity date, the Issuer intends to publish (in English) on its website a report in accordance with the reporting indicators and processes that are outlined in the "Reporting" section (and may publish the report indicated in the "External Review – Reporting Assurance" section) of the SDG Bond Framework. Where confidentiality agreements limit the amount of detail that can be made available, the information is currently expected to be presented on an aggregated basis for project categories in the report by taking into account the recommendations in the "Handbook - Harmonized Framework for Impact Reporting (April 2020)" (which can be found as of 7 September 2023) at https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Handbook-Harmonized-Framework-for-Impact-Reporting-220520.pdf) for Green Bonds and "Working Towards a Harmonized Framework for Impact Reporting for Social Bonds (June 2020)" (which can be found as of 7 September 2023 at https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Harmonized-Framework-for-Impact-Reporting-for-Social-BondsJune-2020-090620.pdf) for Social Bonds (with corresponding reporting for Sustainability Bonds).

The Issuer intends to obtain an independent verification assessment from an external verifier for each Series of Sustainable Notes as described in the "External Review" section of the SDG Bond Framework. Additional reports might be published from time to time in case of material developments.

"Green Eligible Categories" means projects falling within the "Green Eligible Categories" in the SDG Bond Framework. As of 7 September 2023, categories of such projects include projects for: (a) renewable energy, (b) energy efficiency, (c) green buildings, (d) clean transport, (e) sustainable water and wastewater management, (f) pollution prevention and control and (g) environmentally sustainable management of living natural resources and land use.

"Social Eligible Categories" means projects falling within the "Social Eligible Categories" in the SDG Bond Framework. As of 7 September 2023, categories of such projects include projects for: (a) health, (b) education, (c) telecommunications and mass transit, (d) housing, (e) public works infrastructure, (f) arts infrastructure, (g) infrastructure with a social purpose, (h) social enterprises and foundations, (i) financing for individuals qualifying as vulnerable or on low incomes, (j) support for financial inclusion and (k) entrepreneurship and support for micro-businesses.

Neither the SDG Bond Framework nor any of the reports, verification assessments, opinions or contents of any of the websites referenced in this "Use of Proceeds" section are, or shall be deemed to, constitute a part of, nor are incorporated into, this Base Prospectus.

## EXHIBIT B

## SUMMARY FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the following summary financial and other information have been extracted from the Group's BRSA Financial Statements incorporated by reference herein 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.

As noted in "Presentation of Financial and Other Information," pursuant to the "Communiqué amending the Communiqué on the Turkish Accounting Standard 27 (TAS 27) Separate Financial Statements" published in the Official Gazette dated 9 April 2015 and numbered 29321, Turkish companies are provided the option of accounting for investments in subsidiaries, joint ventures and affiliates at cost in accordance with the provisions of TFRS 9 or by using the equity method defined in TAS 28. As of 28 February 2022, the Bank switched its accounting for investments in non-financial subsidiaries to using the equity method, replacing the previous approach of accounting for non-financial subsidiaries at cost (after deducting any impairment). Due to this and related changes to the Group's accounting, the BRSA Financial Statements for 2020 and 2021 were restated. See notes 3.28.1 and 3.29.1 in the Group's BRSA Annual Financial Statements as of and for the year ended 31 December 2022. As a result, the financial information as of and for the years ended 31 December 2020 and 2021 in the BRSA Annual Financial Statements as of and the year ended 31 December 2021 should be understood accordingly.

| | | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2022** | **2023** |
| | | | (*TL thousands*) | | |
| Interest income | 39,393,261 | 60,192,823 | 132,800,968 | 48,418,679 | 82,523,503 |
| Interest expense | (14,000,693) | (24,128,432) | (44,708,341) | (17,438,064) | (45,747,788) |
| **Net interest income** | **25,392,568** | **36,064,391** | **88,092,627** | **30,980,615** | **36,775,715** |
| Net fees and commissions income/expenses | 6,587,665 | 9,194,510 | 18,146,320 | 7,087,881 | 14,274,584 |
| Dividend income | 22,178 | 27,996 | 94,753 | 62,685 | 44,378 |
| Net trading income/losses(net) | 702,894 | 4,735,886 | 10,512,298 | 5,935,748 | 18,809,868 |
| Other operating income | 6,880,312 | 12,078,152 | 17,449,406 | 9,859,518 | 17,897,686 |
| **Total operating profit** | **39,585,617** | **62,100,935** | **134,295,404** | **53,926,447** | **87,802,231** |
| Expected credit losses[(1)] | (18,159,994) | (28,450,165) | (29,741,042) | (15,571,995) | (22,393,930) |
| Other operating expenses | (11,886,838) | (15,240,273) | (27,566,610) | (11,058,136) | (24,513,877) |
| **Profit/(loss) before taxes** | **9,538,785** | **18,410,497** | **76,987,752** | **27,296,316** | **40,894,424** |
| Provision for taxes | (2,823,433) | (4,822,933) | (18,477,446) | (6,115,293 | (7,084,684) |
| **Net profit/(loss)** | **6,715,352** | **13,587,564** | **58,510,306** | **21,181,023** | **33,809,740** |
| Attributable to equityholders of the Bank | 6,635,279 | 13,466,741 | 58,285,378 | 21,084,901 | 33,584,124 |
| Attributable to minority interests | 80,073 | 120,823 | 224,928 | 96,122 | 225,616 |

(1) Including other provisions.

| Balance Sheet Data: | As of 31 December | | | | | | As of 30 June | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | % | 2021 | % | 2022 | % | 2023 | % |
| *Assets:* | *(TL thousands, except for percentages)* | | | | | | | |
| Cash and cash equivalents | 94,253,040 | 17.4 | 216,797,764 | 25.5 | 271,499,741 | 20.8 | 442,643,981 | 23.4 |
| Financial assets measured at fair value through profit/(loss) (FVTPL)[(1)] | 8,382,731 | 1.5 | 7,839,033 | 0.9 | 5,771,459 | 0.4 | 7,417,489 | 0.4 |
| Financial assets measured at fair value through other comprehensive income (FVOCI) | 36,785,565 | 6.8 | 55,746,298 | 6.6 | 88,928,400 | 6.8 | 90,917,531 | 4.8 |
| Derivative financial assets | 4,614,552 | 0.9 | 17,790,069 | 2.1 | 11,035,218 | 0.8 | 21,789,150 | 1.2 |
| Loans | 350,233,129 | 64.7 | 492,589,718 | 57.9 | 761,104,244 | 58.4 | 999,487,575 | 52.9 |
| Lease receivables | 7,508,708 | 1.4 | 12,656,284 | 1.5 | 18,932,293 | 1.5 | 27,441,822 | 1.5 |
| Factoring receivables | 2,926,569 | 0.5 | 4,216,600 | 0.5 | 9,542,402 | 0.7 | 11,699,127 | 0.6 |
| Other financial assets measured at amortised cost | 33,238,911 | 6.1 | 40,167,047 | 4.7 | 110,019,856 | 8.4 | 167,235,780 | 8.8 |
| Expected credit losses | (21,136,046) | (3.9) | (29,499,327) | (3.5) | (40,552,805) | (3.1) | (48,863,132) | (2.6) |
| Assets held for sale and assets of discontinued operations[(1)] | 931,753 | 0.2 | 585,948 | 0.1 | 780,418 | 0.1 | 810,779 | 0.0 |
| Ownership investments (net) | 601,007 | 0.0 | 1,164,524 | 0.1 | 2,280,962 | 0.2 | 3,245,947 | 0.2 |
| Tangible assets | 5,960,071 | 1.1 | 6,106,320 | 0.7 | 11,788,007 | 0.9 | 16,850,283 | 0.9 |
| Intangible assets | 614,398 | 0.1 | 963,650 | 0.1 | 1,263,022 | 0.1 | 1,546,705 | 0.1 |
| Investment property | 561,525 | 0.1 | 652,633 | 0.1 | 926,800 | 0.1 | 1,404,152 | 0.1 |
| Current tax assets | 88,983 | 0.0 | 30,727 | 0.0 | 9,604 | 0.0 | 47,515 | 0.0 |
| Deferred tax assets | 3,640,403 | 0.7 | 4,443,291 | 0.5 | 7,105,391 | 0.5 | 15,229,873 | 0.8 |
| Other assets | 12,142,018 | 2.2 | 18,225,021 | 2.1 | 43,143,471 | 3.3 | 132,188,200 | 7.0 |
| **Total assets** | **541,347,317** | **100.0** | **850,475,600** | **100.0** | **1,303,578,483** | **100.0** | **1,891,092,777** | **100.0** |
| ***Liabilities:*** | | | | | | | | |
| Deposits | 358,100,348 | 66.2 | 582,833,426 | 68.5 | 908,739,459 | 69.7 | 1,400,779,398 | 74.1 |
| Funds borrowed | 26,620,183 | 4.9 | 43,626,729 | 5.1 | 45,856,723 | 3.5 | 53,670,871 | 2.8 |
| Money markets funds | 3,163,978 | 0.6 | 15,942,789 | 1.9 | 24,299,009 | 1.9 | 46,191,201 | 2.4 |
| Securities issued (net) | 22,817,081 | 4.2 | 25,644,871 | 3.0 | 17,608,189 | 1.4 | 10,063,855 | 0.5 |
| Financial liabilities measured at FVTPL | 16,137,939 | 3.0 | 24,183,368 | 2.8 | 32,020,818 | 2.5 | 40,734,597 | 2.2 |
| Derivative financial liabilities | 8,536,890 | 1.6 | 13,428,735 | 1.6 | 10,952,360 | 0.8 | 21,165,581 | 1.1 |
| Lease payables | 1,026,367 | 0.2 | 1,070,038 | 0.1 | 1,459,250 | 0.1 | 1,958,232 | 0.1 |
| Provisions | 10,035,571 | 1.9 | 14,720,023 | 1.7 | 21,476,401 | 1.6 | 22,251,984 | 1.2 |
| Current tax liability | 2,296,347 | 0.4 | 2,972,915 | 0.3 | 8,050,327 | 0.6 | 7,346,033 | 0.4 |
| Deferred tax liability | 48,863 | 0.0 | 55,096 | 0.0 | 197,828 | 0.0 | 127,416 | 0.0 |
| Subordinated debts | 6,598,969 | 1.2 | 10,911,505 | 1.3 | 15,245,929 | 1.2 | 21,006,773 | 1.1 |
| Other liabilities | 23,121,074 | 4.3 | 34,785,250 | 4.1 | 64,548,070 | 5.0 | 77,264,963 | 4.1 |
| **Total liabilities** | **478,503,610** | **88.4** | **770,174,745** | **90.6** | **1,150,454,363** | **88.3** | **1,702,560,904** | **90.0** |
| **Shareholders' equity** | **62,843,07** | **11.6** | **80,300,855** | **9.4** | **153,124,120** | **11.7** | **188,531,873** | **10.0** |
| **Total liabilities and shareholders' equity** | **541,347,317** | **100.0** | **850,475,600** | **100.0** | **1,303,578,483** | **100.0** | **1,891,092,777** | **100.0** |

(1) As disclosed in Note 5.1.2.2 of the Group's Annual Financial Statements dated as of and for the year ended 31 December 2021, financial assets measured at fair value through profit/(loss) includes an impaired loan (later converted into equity) amounting to US$756,288,034 and US$769,872,381, respectively, as of 31 December 2020 and 2021 provided to one corporate borrower, the fair value of which was determined to be TL 4,500,540 thousand and TL 4,483,939 thousand, respectively, as of such dates. Such loan was written-off on 30 September 2022.

## EXHIBIT C

## CAPITALISATION OF THE GROUP

The Group's total shareholders' equity as of 30 June 2023 was TL 188,531,873 thousand, a 23.1% increase from TL 153,124,120 thousand as of 31 December 2022, which itself was a 90.7% increase from TL 80,300,855 thousand as of 31 December 2021, itself a further 27.8% increase from TL 62,843,707 thousand as of 31 December 2020. 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 available-for-sale assets and 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 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(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 | 1,712,571 | 1,852,255 | 4,561,421 | 11,896,096 |
| Other comprehensive income/expense items to be recycled to profit or loss | 2,980,346 | 7,191,703 | 19,914,049 | 22,881,876 |
| Profit reserves | 45,869,743 | 51,937,355 | 63,782,784 | 114,573,817 |
| Profit/(loss) | 7,048,934 | 14,015,592 | 59,396,697 | 33,584,124 |
| Minority interest | 247,679 | 319,516 | 484,735 | 611,526 |
| **Total shareholders' equity** | **62,843,707** | **80,300,855** | **153,124,120** | **188,531,873** |

For additional information on the Group's shareholders' equity, see note 5.2.14 in the Group's BRSA Interim Financial Statements.

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 June |
|---|---|---|---|---|
| | **2020** | **2021** | **2022** | **2023** |
| | *(TL thousands)* | | | |
| Total shareholders' equity | 62,409,195 | 80,300,855 | 153,124,120 | 188,531,873 |
| Subordinated debt | 6,598,969 | 10,911,505 | 15,068,843 | 20,442,537 |
| **Total Capitalisation** | **69,008,164** | **91,212,360** | **168,192,963** | **208,974,410** |

## EXHIBIT D

## 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 2020, 2021 and 2022 and the first six months of 2022 and 2023. Unless otherwise specified, the financial information presented in this discussion has been extracted from the BRSA Financial Statements incorporated by reference herein without material adjustment. This section should be read in conjunction with such BRSA Financial Statements and (including the notes therein) 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 Financial Statements incorporated by reference herein have been prepared in accordance with the BRSA Principles except for the general reserves recognised by the Group 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 macroeconomic, political and regulatory conditions prevailing in Türkiye and prospective investors should consider the factors set forth under "Risk Factors – Risks Relating to Türkiye" 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 Financial Statements incorporated by reference herein. The Group prefers to present its financial condition and performance on the basis of the BRSA 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 the Group's versions. As of 31 December 2020, 2021 and 2022 and 30 June 2023, the Bank had total assets of TL 493.2 billion, TL 758.9 billion, TL 1,152.2 billion and TL 1,669.4 billion, respectively, as compared to total assets of the Group of TL 541.3 billion, TL 850.5 billion, TL 1,303.6 billion and TL 1,891.1 billion, respectively, with unconsolidated total assets representing 91.1%, 89.2%, 88.4% and 88.3% of consolidated total assets, respectively. As of the same dates, the Bank had total liabilities of TL 430.7 billion, TL 678.9 billion, TL 999.5 billion and TL 1,481.7 billion, respectively, as compared to total liabilities of the Group of TL 478.5 billion, TL 770.2 billion, TL 1,150.5 billion and TL 1,891.1 billion, respectively, with unconsolidated total liabilities representing 90.0%, 88.1%, 86.9% and 78.4% of consolidated total liabilities, respectively.

For 2020, 2021 and 2022, the Bank had current period profit/loss from continued operations of TL 6.6 billion, TL 13.6 billion and TL 58.5 billion, respectively (TL 8.2 billion and TL 15.7 billion, respectively, for the first six months of 2022 and 2023), as compared to current period profit/loss from continued operations of the Group of TL 6.7 billion, TL 13.6 billion and TL 58.5 billion, respectively (TL 21.2 billion and TL 33.8 billion, respectively, for the first six months of 2022 and 2023), with unconsolidated current period profit/loss from continued operations representing 97.8%, 100.1% and 100.0% of consolidated current period profit/loss from continued operations, respectively (99.6% and 101.2%, respectively, for the first six months of 2022 and 2023).

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

**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, political and regulatory conditions prevailing in Türkiye 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 2020.

*Turkish Economy and Political Developments*

The Group's operations are primarily in Türkiye (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 monetary and regulatory policies, economic growth rates, inflation and fluctuations in interest rates in Türkiye. For additional information on political developments in Türkiye, see "Risk Factors - Risks Relating to Türkiye - Political Conditions - Political Developments."

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

| | As of or for the year ended 31 December | | | As of or for the six months ended 30 June |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| Nominal GDP at current prices (TL millions) | 5,048,220 | 7,248,789 | 15,006,574 | 10,144,691 |
| Real GDP growth in Turkish Lira | 1.9% | 11.4% | 5.6% | 3.9% |
| (Deficit)/surplus of consolidated budget/GDP(1) | (3.4)% | (2.7)% | (0.9)% | (3.8)% |
| CPI(2) | 14.6% | 36.1% | 64.3% | 38.2% |
| Producer Price Inflation(2) | 25.1% | 79.9% | 97.7% | 40.4% |
| Central Bank overnight Turkish Lira borrowing interest rate, period-end | 15.50% | 12.50% | 7.5% | 13.5% |
| Central Bank one week Turkish Lira repo rate/policy rate, period-end(3) | 17.00% | 14.00% | 9.0% | 15.0% |
| Refinancing rate of the Central Bank, period-end | 18.50% | 15.50% | 10.5% | 16.5% |
| Central Bank late liquidity window lending interest rate, period-end | 21.50% | 18.50% | 13.50% | 19.5% |
| Central Bank weighted average cost of funding, period-end | 17.00% | 14.00% | 9.0% | 12.8% |
| Depreciation of the Turkish Lira against the U.S. dollar(4) | (19.89)% | (44.37)% | (28.71)% | (27.60)% |
| CPI-based real effective exchange rate appreciation (depreciation) (2003=100) | (18.4)% | (23.0)% | (15.2)% | (5.8)% |
| Gross gold and international currency reserves, period-end (U.S. dollars, millions) | 94,628 | 111,051 | 128,754 | 108,586 |

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 over the sum of the GDP amounts as of each quarter-end date for the four consecutive quarters ended on the last day of the applicable period.

(2) Annual percentage change of the applicable index.

(3) The Central Bank announces the weekly repo lending rate as the reference rate.

(4) Based upon the Turkish Lira indicative exchange rate for purchases of U.S. dollars announced by the Central Bank effective as of the last day of the period.

Since the beginning of 2020, economic conditions across emerging markets, including Türkiye, 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) policy rate changes by the U.S. Federal Reserve, the strengthening of the U.S. dollar, the impact of the COVID-19 pandemic, the depreciation of the Turkish Lira, inflationary pressures starting in 2021 and then, in 2022, policy rate increases (and the expectation of further rate increases) and other tightening by the U.S. Federal Reserve and other central banks and the Russian invasion of Ukraine. See "-Global Economic Conditions" below. In addition, there has been considerable uncertainty regarding Türkiye's political and geopolitical conditions resulting from a variety of factors (see "Risk Factors - Risks Relating to Türkiye - Political Conditions - Political Developments" and "Risk Factors - Risks Relating to Türkiye - Political Conditions - Terrorism and Conflicts"), including changes in the governance and/or policies of the Central Bank.

Partially as a result of these factors, GDP growth in Türkiye has been volatile since the beginning of 2020, which has impacted the Group's growth and increased non-performing loans. In the first six months of 2020, GDP increased by

4.5% compared to the same period of the previous year; *however*, GDP sharply decreased by 10.3% 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 Türkiye and globally, overall GDP growth for 2020 was only 1.8%. In 2021, growth increased to 11.4%, principally driven by an increase in household consumption and strong contributions from the services and information and technology sectors. In 2022, GDP grew by 5.6%, which growth was primarily supported by private consumption, a rise in imports and an increase in finance and insurance activities and information and communication activities. There was strong growth in the first half of 2023 in the run-up to the May 2023 election; *however*, the level of recovery remains dependent upon global macroeconomic and geopolitical conditions and the successful implementation of Türkiye'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 2022, the Turkish Lira (using daily average exchange rates) depreciated by 28.71% 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).

In 2020, the annual CPI inflation rate was 14.6% and domestic producer price inflation was 25.2%, reflecting primarily an increase in food, energy and commodity prices (including due to the depreciation of the Turkish Lira). In 2021, the CPI inflation rate surged to 36.1%, reflecting primarily an increase in the prices of food, energy, consumer durables and transportation, which increases resulted from the depreciation of the Turkish Lira, the impact of disruptions in supply chains, the rise in government-administered prices and the reopening of the Turkish economy from COVID-19-related restrictions. In 2022, the CPI inflation rate was 64.3% and the domestic producer price inflation rate was 97.7% (it should be noted that this is the official inflation rate whereas other analysts have published different rates, in some cases significantly higher than the official rate), reflecting significant increases in the prices of food, energy and imported products as well as recent increases in interest rates as well as VAT and other consumption taxes. In the first eight month of 2023, the CPI inflation rate declined to 58.9% (on a last 12 months basis). On 27 July 2023, the Central Bank published an inflation report indicating an inflation forecast of 58.0%, 33.0% and 15.0% at the end of 2023, 2024 and 2025, respectively, bringing its inflation forecasts closer to the market's expectations, which was followed on 6 September 2023 by the government's publication of the newest Medium Term Programme for the country's economy, which anticipated inflation of 65.0%, 33.0% and 15.2% in 2023, 2024 and 2025, respectively.

Although the EU-defined Turkish government debt level decreased considerably since 2001 and reached its lowest level with 27.3% of GDP in 2015, it then increased to 31.7% in 2022, and (although this remains well below the Maastricht criteria), Türkiye 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 Türkiye").

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 Türkiye. As of 31 December 2020, 2021 and 2022 and 30 June 2023, the Group's NPL ratio for its entire loan portfolio was 4.5%, 3.6%, 2.6% and 2.1%, respectively, with an NPL ratio for its retail loan portfolio of 2.5%, 2.3%, 1.9% and 2.0%, respectively, as of such dates and an NPL ratio for its commercial and corporate loan portfolio of 5.1%, 4.0%, 2.8% and 2.1%, respectively, as of such dates. During 2021, the change in the Group's NPLs was principally due to Stage 2 loans being reclassified as NPLs in the last quarter of the year (and would have been higher absent the impact of NPL sales of TL 0.7 billion and write-downs of TL 3.5 billion during the year). In 2022, the change resulted primarily from strong collection performance and high levels of loan growth (and would have been higher absent the impact of NPL sales of TL 0.8 billion and write-downs of TL 7.6 million during the year). While there were no NPL sales during the first six months of 2023, the Group had TL 2.0 billion of write-downs during the period, accounting for a 0.18% 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 (as part of the measures taken against the impacts of the COVID-19 pandemic) implemented a temporary rule (which ceased to be of effect as of 31 December 2021) that 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 (including the 31 December 2020 figures but not those from 31 December 2021 or thereafter). 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 Türkiye, 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 June 2023, in the event such a loan or other loans become non-performing, or there is a slowdown in economic conditions, this might have a material adverse effect on the asset quality of Turkish banks, including the Bank.

As of 30 June 2023, restructured loans represented 40.2% of the total Stage 2 loans and had a 38.6% coverage ratio, which was higher than the 20.8% coverage ratio for all Stage 2 loans (thus including also such restructured loans) as of such date.

*Changes to Turkish Banking Policy and Regulations*

The Central Bank adjusts reserve requirement ratios as a policy tool at various times to reduce or encourage certain actions by the banking sector, including both deposit and lending activity and changes to the holding of securities (primarily Turkish government securities). The adjustments in reserve requirement ratios have frequently been combined with changes in the Central Bank's interest rate and liquidity management policies, which directly influence the Group's deposit and lending rates and thereby impact margins and results of operations given the maturity mismatch between shorter term assets and longer term liabilities (see "Risk Management – General - Liquidity Risk Management"). The Central Bank has also used unconventional policy tools from time to time, including the foreign exchange-protected Turkish Lira deposit scheme and various measures aimed at limiting loan pricing in 2022 and 2023, which have impacted the financial condition and profitability of the Turkish banking sector.

On 16 January 2020, the Central Bank decreased the policy rate by 75 basis points to 11.25% and then further reduced it on 19 February 2020 to 10.75%, on 17 March 2020 to 9.75%, on 22 April 2020 to 8.75% and on 21 May 2020 to 8.25%. These decreases were followed on 24 September 2020 by an increase to 10.25%, on 19 November 2020 by an increase to 15.00%, on 24 December 2020 by an increase to 17.00% and a further increase to 19.00% in March 2021; *however*, the Central Bank 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, an additional 100 basis point reduction to 15.00% in November 2021 and a further 100 basis point reduction to 14.00% in December 2021, all followed in 2022 with reductions to 13.00% on 18 August 2022, 12.00% on 22 September 2022, 10.50% on 20 October 2022, 9.00% on 24 November 2022 and 8.50% on 23 February 2023, which might change demand for imports, adversely affect Türkiye's economic growth, negatively impact the Turkish Lira's exchange rate and/or result in downward pressure on the Group's net interest margin. After the presidential elections in May 2023, the Central Bank increased the rate to 15.00% and then raised it again to 17.50% in July 2023 and 25.00% in August 2023; *however*, as of 7 September, such rate remains well below the level of inflation, thereby putting upward pressure on inflation. In addition to the gradual increase in the policy rate, the Central Bank has also introduced quantitative tightening and selective credit policies to support its monetary policy stance. As noted in "Risk Factors - Risks Relating to Türkiye - Economic Conditions – Inflation," there has been a de-linking of market interest rates in Türkiye from Central Bank policy rates in 2022, which has had various effects, including resulting in very positive returns on CPI-linked securities and increased profitability of Turkish banks in Turkish Lira terms. For more information on the Central Bank's interest rates, see "Interest Rates and Central Bank Policy."

Laws also are imposed or amended from time to time to require Turkish banks to adhere to certain restrictions on their lending to consumers, including with respect to credit cards. These regulatory changes might inhibit the growth of both interest and fee income for the Group. For examples of certain such requirements, see "Turkish Regulatory Environment - Consumer Loan, Provisioning and Credit Card Regulations."

*Global Economic Conditions*

The Bank's performance will continue to be influenced by conditions in the global economy. The outlook for the global economy (and particularly emerging markets) over the near to medium term remain challenging, which in turn might impact prospects for stabilisation and improvement of economic and financial conditions in Türkiye. A lack of improvement, or deterioration in these conditions, might have a material adverse effect on the Bank's business, financial condition and/or results of operations.

In 2020, the global economy worsened with the impact of the COVID-19 pandemic. While the global economy recovered in 2021, growth in 2022 was negatively impacted by the impact of the rate increases by the U.S. Federal Reserve and other central banks in response to elevated levels of inflation. For further information on macroeconomic risk factors, see "Risk Factors - Risks Relating to the Group and its Business" and "Risk Factors - Risks Relating to Türkiye."

On 3 March 2020, the U.S. Federal Reserve implemented a 50 basis point emergency cut to address the evolving risks on the global economy posed by the COVID-19 coronavirus, which was followed on 16 March 2020 with a further 100 basis point reduction. As a result of rapid growth and supply disruptions as the impact of the pandemic was reduced, inflation accelerated throughout 2021 and 2022 and central banks and monetary policy turned towards tightening. For example, in November 2021, the U.S. Federal Reserve announced that it would reduce the monthly pace of its net asset purchases, and (in March 2022) increased its policy rate by 25 basis points and thereafter increased it various times.

Early in 2020, the impact of the COVID-19 coronavirus on global markets increased risks to global growth and financial markets, with significant negative impacts on Türkiye, the United States, the EU and most other jurisdictions throughout 2020 and continuing into 2021 and 2022. The economic slowdown initiated by the pandemic led the ECB to maintain an accommodative stance for the eurozone economy, including maintaining the policy that has been in place since 2011 of providing very accommodative interest rates; *however*, increases in inflationary pressures and growth resulted in the ECB reducing its emergency pandemic asset purchases, terminating them completely in March 2022, and increasing interest rates starting in July 2022. These and other key factors, such as geopolitical tensions, might have a material adverse impact on international financial markets and economic conditions and, in turn, the market's anticipation of these impacts might have a material adverse effect on the Turkish economy and the Bank's business, financial conditions and/or liquidity. In particular, these factors might disrupt payment systems, money markets, long-term and short-term fixed income markets, foreign exchange markets, commodities markets and equity markets and adversely affect the cost and availability of funding.

*Loan Growth*

As of 31 December 2021, Turkish Lira-denominated loans were 27.9% higher than as of 31 December 2020, reflecting strong growth across many products, including a 31.4% increase in consumer loans (excluding credit card loans), an 19.5% increase in business banking loans and a 48.8% increase in credit card loans. The Bank gained market share among the non-governmental banks in Turkish Lira-denominated general purpose loans to consumers and credit card loans. In 2022, growth in Turkish Lira-denominated performing loans reached 79.9%, in large part reflecting the significant inflationary environment since, as interest rates were below the inflation rate and economic activity remained strong, there was demand from both incorporated and retail customers. As of 31 December 2022, consumer loans (excluding credit card loans) increased by 41.9%, Turkish Lira-denominated business banking loans increased by 87.4% and credit card loans grew by 127.0%. The Bank gained market share among commercial banks in Turkish Lira-denominated loans, credit card loans, Turkish Lira-denominated business banking loans, SME loans and general purpose loans to consumers.

Growth in Turkish Lira-denominated loans in the last quarter of 2022, which also carried over into the first quarter of 2023, was significantly impacted by the regulatory environment, including the Central Bank's Liraisation strategy. In the first six months of 2023, the growth in Turkish Lira-denominated performing loans was 31.9%, which was slightly above the sector growth of 31.6%. The growth remained strong in credit card loans and consumer loans, which increased by 64.4% and 31.4%, respectively, as of 30 June 2023 from the end of the previous year. Due to the Bank's conservative lending response to a regulatory price cap on Turkish Lira-denominated commercial loans, which resulted in redemptions being higher than new originations, 8.7% growth in such commercial loans during the first six months of 2023 was below the sector's growth of 22.7%; *however*, in the second quarter of 2023 the bank increased Turkish Lira-denominated commercial loans by 9.9%, outperforming the sector's growth of 0.3%, which was largely due to the Bank's strategy to increase SME lending (in part because such category of commercial loans is less regulated).

With respect to foreign currency-denominated loans, these declined by 6.6% in 2021, declining again by 9.8% in 2022 due to redemptions and low demand; *however*, in the first six months of 2023, foreign currency-denominated loans increased by 1.7% due largely to attractive spreads on export loans in the first quarter of 2023.

As of 30 June 2023, total loans represented 54.9% of the Group's assets.

In December 2016, the Turkish government announced the KGF programme, which aimed to boost economic growth, support high potential companies that have difficulty accessing funding due to collateralisation constraints and help Turkish banks to grow by allowing 0% risk weight to be applied to the guaranteed portion of these loans. This programme has contributed significantly to the growth in Turkish Lira-denominated loans, including in each of 2021 and 2022 (but not in the first six months of 2023). See "Risk Factors – Risks Relating to the Group and its Business – Credit Risks – Counterparty Credit Risk" for additional information about the KGF programme.

*Currency Exchange Rates*

A significant portion of the Group's assets and liabilities is denominated in foreign currencies, particularly U.S. dollars and euro. The share of Turkish Lira-denominated assets and liabilities in the Group's balance sheet changed from

54.1% and 38.8%, respectively, as of 31 December 2020 to 48.8% and 31.5%, respectively, as of 31 December 2021, 55.5% and 44.3%, respectively, as of 31 December 2022 and 55.1% and 50.1%, respectively, as of 30 June 2023. The increases in 2022 and the first six months of 2023 in large part reflect the Central Bank's Liraisation strategy, by which the Central Bank implemented rules to encourage Turkish borrowers and lenders to use Turkish Lira-denominated loans.

While the Group monitors its net open position in foreign currencies (*i.e.*, 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 18.4% and 17.4%, respectively, as of 31 December 2020,18.2% and 16.7%, respectively, as of 31 December 2021, 5.7% and 4.6%, respectively, as of 31 December 2022 and 8.3% and 9.2%, respectively, as of 30 June 2023.

The Group had a net long open foreign currency position (including both on and off balance sheet positions) of US$1,804 million as of 31 December 2020, US$1,318 million as of 31 December 2021, US$532 million as of 31 December 2022 and US$749 million as of 30 June 2023. The change in the Group's net long foreign currency position in 2021 from 2020 was primarily due to relatively higher increases in foreign currency deposits, securities issued and short off-balance sheet position due to derivative transactions. In 2022 and the first six months of 2023, 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 June |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | | (millions) | | |
| U.S. dollars | $757 | $215 | $(87) | $60 |
| Euro(1) | €557 | €616 | €226 | €286 |
| Other currencies(2) | $365 | $404 | $377 | $376 |
| **Total net foreign currency position(1)(2)(3)** | **$1,804** | **$1,318** | **$532** | **$749** |

(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 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 128,562 thousand in 2020, losses of TL 1,673,933 thousand in 2021, losses of TL 8,701,043 thousand in 2022 and gains of TL 15,360,778 thousand in the first six months of 2023, which results were principally derived from swaps. See also "Operating Income - Other Operating Income" and "Other Operating Expenses" in

"Analysis of Results of Operations for the six months ended 30 June 2022 and 2023 and the years ended 31 December 2020, 2021 and 2022."

Exchange rate movements can also have an effect on the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets, liabilities 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 19.89% depreciation of the Turkish Lira against the U.S. dollar in 2020, the Turkish Lira-equivalent value of the Group's foreign currency-denominated assets, liabilities and capital increased significantly in 2020, with a similar experience in 2021, 2022 and the first six months of 2023 as a result of the 44.37%, 28.71% and 27.60%, respectively, depreciation of the Turkish Lira against the U.S. dollar. See "– Capital Adequacy" below and "Risks Relating to Türkiye - Economic Conditions" and "Risks Relating to Türkiye - Turkish Regulatory and Other Matters - Banking Regulatory Matters."

*Interest Rates and Central Bank Policy*

One of the primary factors influencing the Group's profitability is the level of short-term interest rates in Türkiye (including both policy rates and market rates, which have been further impacted by market expectations regarding inflation and foreign exchange rates), which affects the return on its securities portfolio and its loan and deposit rates. Turkish Lira-denominated treasury bills and bonds sold through public auction had average compound interest rates of 8.82%, 14.64% and 16.96% in 2020, 2021 and 2022, respectively. Interest rates earned and paid on the Group's assets and liabilities reflect, to a certain degree, current 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 June 2023, 7.3% of the Bank's Turkish Lira-denominated cash loan portfolio carried a floating interest rate (7.0%, 11.3% and 11.0%, respectively, as of 31 December 2020, 2021 and 2022).

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 Türkiye are generally 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 both positively affected (for example, the value of its fixed rate securities portfolio might increase, as was the case especially between May 2014 and November 2016 and during the second half of 2019, and its interest margins might improve), but can also be negatively impacted (for example, through the decline in net interest margins on assets (such as new loans) funded by relatively low interest rate deposits, including demand deposits). On the other hand, when short-term rates increase, the Group's interest margin is generally negatively affected (as was the case, for example, in the last quarter of 2020), as it will generally pay higher interest rates on its interest-bearing liabilities before it can modify the rates of its interest-earning assets. Starting from July 2019, the Central Bank made cuts to the policy rate until September 2020, which resulted in lower funding costs; *however*, the rates then increased materially until March 2021 (to 19.00%) due to the monetary tightening policy of the Central Bank, which lead to an increase in interest paid on interest-bearing liabilities. As rates were again reduced in the latter part of 2021 and through 2022, the Group benefitted by obtaining reduced funding costs and improved margins, particularly as market interest rates on loans and securities were de-linked from policy rates. 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.

Notwithstanding that general result, the first six months of 2023 saw an increased lack of correlation between the policy rate and actual funding costs due to rapid changes in the regulatory environment and the Central Bank's Liraisation strategy, which increased Turkish Lira deposit costs due to increased competition among Turkish banks. On the other hand, the resultant volatility in the market, which was also impacted by the lead-up to the May 2023 elections, enabled the Bank to reduce its duration gap significantly in order to prepare its balance sheet for potential increases in the policy rate after the election.

Due to an increasing trend in inflation, income from CPI-linked securities increased in 2021 and 2022 (the CPI used in the determination of the Group's CPI-linked securities was 11.9%, 19.9% and 85.5% in 2020, 2021 and 2022, respectively, and 35.0% in the first six months of 2023), serving as a hedge in an inflationary environment. As of

31 December 2020, 2021 and 2022 and 30 June 2023, 39.1%, 40.2%, 41.0% and 31.5%, respectively, of the Group's securities portfolio consisted of CPI-linked securities.

Interest rates are expected to remain volatile as a result of factors generally affecting emerging markets as well as domestic economic and political conditions in Türkiye. See "-Turkish Economy" above and "Risk Factors - Risks Relating to the Group and its Business - Market Risks - Interest Rate Risks."

As noted above, the Central Bank has adjusted reserve requirement ratios as a policy tool at various times in the past several years to reduce or encourage certain actions by the banking sector, including both deposit and lending activity. For example, on 19 August 2019, the Central Bank decided to revise the reserve requirement ratios for Turkish Lira liabilities of banks whose annual loan growth (to be calculated according to the procedures and principles determined by the Central Bank) is between 10% and 20% of the sum of their loans of a standard nature and loans under close monitoring (calculated in Turkish Lira) (excluding foreign currency-indexed loans and loans extended to banks). Accordingly, the reserve requirement ratio for such liabilities is set at 2% in all maturity brackets, excluding: (a) deposits and participation funds with one year or longer maturity (excluding deposits/participation funds obtained from banks abroad) and (b) other liabilities with a longer than three year maturity (including deposits/participation funds obtained from banks abroad). Such reserve requirement ratios are applied for a six-month period after the calculation period, which will be determined by the Central Bank.

On 26 March 2019, the Central Bank started to execute short-term U.S. dollar/Turkish Lira swap transactions (where the Central Bank borrows U.S. dollars and lends Turkish Lira) with local banks in order to limit the impact of the tight liquidity of the Turkish Lira (before this date, the Central Bank had only been executing swap transactions with local banks where it lent foreign currency and borrowed Turkish Lira).

To support financial stability and the real loan growth-linked reserve requirement practice, the Central Bank decided on 28 December 2019 to increase (effective as of 10 January 2020 for the liability period starting on 27 December 2019) the reserve requirement ratios for foreign exchange deposits/participation funds by 200 basis points for all maturity brackets, but applying a 200 basis point reduction on the new ratios for banks that attain certain Turkish Lira real loan growth conditions (*i.e.*, effectively keeping the reserve requirement ratios for foreign exchange deposits/participation funds of such banks unchanged).

On 27 November 2020, the Central Bank: (a) repealed the reserve requirement related to a bank's annual loan growth, (b) revised the reserve requirement ratios and remuneration rates such that they apply to all banks equally and (c) effective as of 27 November 2020: (i) revised to 12% *per annum* the remuneration rate for Turkish Lira-denominated required reserves and (ii) reduced the commission rate applied to the reserves maintained against U.S. dollar-denominated deposits and participation fund liabilities from 1.25% to 0%. As a result, from December 2020, the reserve requirement ratios for: (A) deposits and participation funds (excluding those obtained from banks abroad) on demand and with a maturity up to (and including) six months and Turkish Lira-denominated other liabilities (including deposits and participation funds received from banks abroad) with a maturity up to (and including) one year were reduced to 6% *per annum* from 7% *per annum*, (B) foreign currency-denominated deposits and participation funds (excluding deposits and participation funds obtained from banks abroad and precious metal deposit accounts) on demand and with a maturity less than one year were reduced to 19% *per annum* from 22% *per annum*, (C) foreign currency-denominated deposits and participation funds (excluding deposits and participation funds obtained from banks abroad and precious metal deposit accounts) with a maturity of one year or more were reduced to 13% *per annum* from 18% *per annum* and (D) other foreign currency-denominated liabilities (regardless of maturity) were reduced by 3% *per annum* (to a range of 5% *per annum* to 21% *per annum*).

On 24 February 2021, the Central Bank: (a) increased Turkish Lira reserve requirement ratios by 200 basis points for all liability types and maturity brackets, (b) revised portions of the Turkish Lira reserve requirements that Turkish banks are permitted to maintain in U.S. dollars and standard gold and (c) revised to 13.50% the remuneration rate for Turkish Lira-denominated required reserves. On 1 July 2021, the Central Bank: (i) reduced the maximum percentage of Turkish Lira reserves it can allow to be held in U.S. dollars from 20% to 10% and terminated the option of Turkish banks to maintain a portion of the Turkish Lira reserve requirements in U.S. dollars as of 1 October 2021, (ii) increased the reserve requirement ratios for foreign currency-denominated deposits and participation funds by 200 basis points for all maturity brackets and (iii) started to apply remuneration rates from 13.5% to 19.0% *per annum* for Turkish Lira-denominated reserves of banks depending upon certain conditions, each of which changes became effective from the calculation date of 6 August 2021 (with the maintenance period starting on 19 July 2021). On 15 September 2021, the Central Bank increased reserve requirement ratios for foreign currency-denominated deposits and participation funds and precious metals deposit accounts by 200 basis points for all maturity brackets effective as of 17 September 2021. On 9 November 2021, the Central Bank: (A) further reduced the maximum percentage of Turkish Lira reserves it would allow to be held in standard gold from 15% to 10% and announced that the facility for holding standard gold for Turkish Lira reserve requirements will be gradually decreased and eventually terminated and (B) increased the reserve requirement ratios for foreign currency deposits/participation funds by a further 200 basis points for all maturity brackets effective from the calculation date of 12 November 2021 (with the maintenance period starting on 28 October 2021).

On 23 April 2022, the Central Bank amended the Communiqué Regarding Reserve Requirements (effective as of 29 April 2022) to require Turkish banks to establish mandatory reserves for their Turkish Lira-denominated commercial cash loans; *provided* that the following are excluded: (a) loans provided to SMEs, tradesmen, financial institutions and/or certain governmental authorities and their subsidiaries and (b) export and investment loans, agricultural loans and corporate credit cards. With respect to such amendments (as further amended on 10 June 2022), banks are required to reserve 20% of the relevant commercial loans (as calculated on the last Friday of every four-week period) for a maintenance period of four weeks. In addition, as a provisional application, banks with a growth rate in loans subject to reserve requirements above 20% as of 31 May 2022 compared to 31 December 2021 were required to maintain mandatory reserves between 10 June 2022 and 24 November 2022 at a rate of 20% of the difference between their existing such loan balances on 30 June 2022 and 31 December 2021 (the "*Commercial Cash Loan Reserve Requirement*"). See also "Turkish Regulatory Environment – Liquidity and Reserve Requirements" with respect to certain other actions taken since the beginning of 2022.

Such adjustments have had, and are likely to continue to have, an impact on the Group's results of operations and financial condition.

The Group's balance sheet structure provides a partial hedge against short- to medium-term interest rate movements. Lower interest rates, together with economic stability, support loan growth and NPL collections. Higher interest rates, on the other hand, have a positive effect on yields on securities, since a significant portion of the Group's securities have a variable interest rate, which partly mitigates higher deposit costs and slowing loan growth. The Group's senior management seeks to proactively change the mix of the Group's variable and fixed rate assets and liabilities depending upon market conditions and expectations, while bearing in mind market trends and the Group's risk management policies, to minimise risk and maintain a balanced composition of assets and liabilities.

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

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| **Net interest margin** | 6.6% | 6.7% | 11.1% | 5.92% |
| Turkish Lira assets | 9.2% | 9.8% | 16.5% | 6.64% |
| Foreign currency assets | 2.5% | 2.2% | 2.3% | 4.69% |
| **Average spread** | | | | |
| Turkish Lira assets/liabilities | 4.7% | 1.7% | 9.1% | 3.47% |
| Foreign currency assets/liabilities | 2.7% | 2.7% | 3.2% | 3.19% |

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

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| Net interest margin | 6.1% | 6.5% | 9.1% | 5.7% |
| Average spread | 4.0% | 3.3% | 5.3% | 3.9% |

In 2021, the Group's net interest margin of 6.5% increased slightly from the 6.1% in 2020, which increase was mainly due to higher income on CPI-linked securities. In the first half of 2021, deposit costs remained at elevated levels due to the continuing high interest rate environment, in particular reflecting that (due to the faster repricing of deposits) interest rates on deposits increased more quickly than interest rates on loans.

In 2022, the net interest margin increased to 9.1%, reflecting that lending growth in the first half of 2022 was predominantly short-term (with an average maturity of less than one year) and thus repriced quickly in an increasing interest environment until the Central Bank started reducing rates in the final months of the year. In the first six months of 2023, the net interest margin declined to 5.7%, reflecting the increased funding costs (due in part to strong competition for deposits) and lower income on CPI-linked securities.

*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 2020, 2021, 2022 and the first six months of 2023 accounting for 16.6%, 17.0%, 31.3% and 21.5%, respectively, of its total interest income and 11.9%, 11.5%, 22.5% and 12.9%, respectively, of its total operating profit before deducting interest expense and fees and commissions. The CPI-linked securities in the Group's investment securities portfolio provided high real yields compared to other government securities in each of such periods, benefitting from the high inflation environment, but their impact on the Group's earnings might vary as inflation rates change.

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 7.7% of the Group's other operating income in 2020, losses representing 20.2% of the Group's other operating income in 2021, gains representing 9.4% of the Group's other operating income in 2022 and gains representing 16.1% of the Group's other operating income in the first six months of 2023. In addition, the Group experienced meaningful trading income in 2022 and the first six months of 2023 as a result of increased foreign exchange trading by customers due to the volatility in the Turkish Lira.

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, it will likely be lower in 2023 compared to 2022 due to a decline in inflation and the acquisition of low-yielding government bonds as a result of recently regulatory changes. As of 7 September 2023, the Bank's management expects that (in the short- to medium-term) the relative size of the Bank's securities portfolio compared to its total assets will likely remain fairly stable, in part to maintain a buffer for liquidity purposes.

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 12.9%, 11.3%, 15.3% and 13.7%, respectively, of the Group's total assets as of 31 December 2020, 2021 and 2022 and 30 June 2023. The recent increases in the Group's securities portfolio were largely due to the introduction of regulations requiring Turkish banks to hold Turkish government securities (*e.g.*, the Bank's share of Turkish Lira deposits in its retail and commercial deposits were (separately) below 60%, which required the Bank to purchase long-term fixed rate Turkish government securities). While the Bank achieved this 60% threshold as of 30 June 2023, this increase might not continue; *however*, there can be no certainty as to the continuing impact of this regulatory changes and other change that might occur in the future. The Bank's management actively manages the Bank's balance sheet composition to seek to minimise the impact of these regulations related additions and improve its net interest margin, which management has enabled the share of the Group's investment securities portfolio in its total assets to remain fairly constant and allow the Group to continue its focus on cash loan lending.

TFRS 9 provides for a forward-looking expected credit loss ("*ECL*") approach. See note 3.8 in the Group's BRSA Financial Statements as of and for the year ended 31 December 2022. 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 2021 was TL 20,955,773 thousand, which was a 46.0% increase from the provisions for losses on loans and other receivables of TL 14,330,950 thousand in 2020. As of 31 December 2021, and after including the impact of NPL sales of TL 665,407 billion in 2021 and write-offs/write-downs of TL 3,500,992 million during the year, the NPL ratio decreased to 3.6% from 4.5% as of 31 December 2020. This decrease was primarily due to strong NPL collections during 2021 having a greater positive impact than new NPL inflows.

In 2022, the Group's provisions for losses on loans and other receivables increased 24.1% to TL 26,005,040 thousand; *however*, the NPL ratio decreased to 2.6%, which decline was principally the result of the limited NPL inflows compared to the high growth in loans and TL 12.0 billion in write-downs (with write-downs accounting for 1.46% of the decline). See "Turkish Regulatory Environment - Expected Credit Losses."

In the first six months of 2023, the Group's provisions for losses on loans and other receivables were TL 22,342,116 thousand and the NPL ratio further declined to 2.1% as of 30 June 2023. As with 2022, this decline was due to limited NPL inflows during a time of high growth in loans and TL 1,052,522 thousand in write-downs (write-downs reduced the NPL ratio by 0.6%).

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 330,000 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 revised these reserves over the years, including increasing them by TL 2,150,000 thousand in 2020 (to TL 4,650,000 thousand), by TL 2,850,000 thousand in 2021 (to TL 7,500,000 thousand) and by TL 500,000 thousand in 2022 (to TL 8,000,000 thousand), in each case due to the possible effects of negative circumstances that might arise in the economy or in market conditions. During the first six months of 2023, the Bank's management (in light of the normalisation of the macro-economic conditions after the May 2023 elections) reversed TL 2,000,000 thousand of such general reserves, resulting in outstanding general reserves of TL 6,000,000 thousand as of 30 June 2023. Each of EY and KPMG has qualified its report included in the applicable 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 critical accounting policies under the BRSA Principles as of and for the six months ended 30 June 2023 are described in the notes to the Group's BRSA Interim Financial Statements (critical accounting policies for BRSA Financial Statements for other accounting periods being set forth in the notes in the applicable BRSA Financial Statements).

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 7 September 2023, 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 in the applicable BRSA Financial Statements.

*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.

*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 Financial Statements as of and for the year ended 31 December 2022. 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 in the Group's BRSA Financial Statements as of and for the year ended 31 December 2022 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, 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 49.8%, 56.2%, 43.5% and 34.2%, respectively, of the Group's total securities portfolio as of 31 December 2020, 2021 and 2022 and 30 June 2023) 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 June 2023 is not included as interim periods are not required by the BRSA to be reported):

| | 31 December | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| | | *(TL thousands)* | |
| Financial assets measured at fair value through profit or loss (net) (excluding derivative financial assets held for trading) ............... | 3,882,191 | 3,355,094 | 5,712,575 |
| Financial assets measured at fair value through other comprehensive income........................................................................................ | 36,785,565 | 55,746,298 | 88,928,400 |
| **Total**.............................................................................................. | **40,667,756** | **59,101,392** | **94,640,975** |

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 2022, 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 0.01% 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 the Group's BRSA Financial Statements as of and for the year ended 31 December 2022. 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 Türkiye (*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 30.7% for 2020, 27.0% for 2021, 24.0% for 2022 and 17.3% for the first six months of 2023 (22.4% for the first six months of 2022), 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:

| Ratios | As of (or for the year ended) 31 December 2020 | 2021 | 2022 | As of (or for the six months ended) 30 June 2023 |
|---|---|---|---|---|
| Annual(ised) net interest margin | 6.1% | 6.5% | 9.1% | 5.7% |
| Net fees and commissions income/expenses as a percentage of total operating profit | 16.8% | 14.9% | 13.6% | 16.4% |
| Cost-to-income ratio | 51.4% | 39.8% | 25.6% | 37.4% |
| Operating expenses as a percentage of average total assets ratio | 2.4% | 2.3% | 2.4% | 1.5% |
| NPL ratio | 4.5% | 3.6% | 2.6% | 2.1% |
| Group's capital adequacy ratios | | | | |
| Tier 1 capital adequacy ratio(1)(4) | 14.3% | 13.8% | 16.2% | 15.7% |
| Common equity Tier 1 capital adequacy ratio(2)(4) | 14.3% | 13.8% | 16.2% | 15.7% |
| Total capital adequacy ratio(3)(4) | 16.9% | 16.7% | 18.6% | 17.9% |
| Expected credit losses to NPLs | 130.1% | 160.6% | 197.6% | 215.8% |
| Expected credit losses to gross loans | 3.0% | 3.0% | 2.4% | 2.0% |
| Return on average total assets | 1.3% | 2.0% | 5.1% | 2.0% |
| Return on average shareholders' equity | 11.3% | 19.0% | 47.4% | 39.6% |
| Loan-to-deposit ratio | 96.2% | 84.3% | 84.7% | 72.6% |

(1) 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.

(2) 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.

(3) 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.

(4) On 17 June 2021 (as revised multiple times thereafter), the BRSA announced that capital adequacy ratio calculations until such date as determined by the BRSA may be calculated using a favourable foreign exchange rate. 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 11.45%, 11.45%, and 14.12%, respectively, as of 31 December 2021, 14.5%, 14.5%, and 16.78%, respectively, as of 31 December 2022 and 13.75%, 13.75%, and 15.81%, respectively, as of 30 June 2023.

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

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| | *(TL thousands, except percentages)* | | | |
| Net interest income | 25,392,568 | 36,064,391 | 88,092,627 | 36,775,715 |
| Average interest-earning assets | 417,634,638 | 557,371,938 | 973,128,470 | 1,309,805,608 |
| **Nonannualised net interest margin** | **6.1%** | **6.5%** | **9.1%** | **2.8%** |
| Annualisation factor | NA | NA | NA | 2.00 |
| **Net interest margin** | **6.1%** | **6.5%** | **9.1%** | **5.7%** |

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:

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| | *(TL thousands, except percentages)* | | | |
| Net fees and commissions income/expenses | 6,587,665 | 9,194,510 | 18,146,320 | 14,274,584 |
| Total operating profit | 39,225,428 | 61,548,493 | 133,311,376 | 86,899,461 |
| **Net fees and commissions income/expenses as a percentage of total operating profit** | **16.8%** | **14.9%** | **13.6%** | **16.4%** |

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

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| | (TL thousands, except percentages) | | | |
| Net interest income | 25,392,568 | 36,064,391 | 88,092,627 | 36,775,715 |
| Net fees and commissions income/expenses | 6,587,665 | 9,194,510 | 18,146,320 | 14,274,584 |
| Net trading income/losses | 702,894 | 4,735,886 | 10,512,298 | 18,809,868 |
| Dividend income | 22,178 | 27,996 | 94,753 | 44,378 |
| Other income | 6,880,312 | 12,078,152 | 17,449,406 | 17,897,686 |
| Provisions for loans, provisions for marketable securities and general reserves | (16,480,950) | (23,805,773) | (26,505,040) | (22,342,116) |
| **Total income** | **23,104,667** | **38,295,162** | **107,790,364** | **65,460,115** |
| Personnel expenses | 4,419,743 | 6,045,979 | 10,141,331 | 8,923,274 |
| Other operating expenses | 7,467,095 | 9,194,294 | 17,425,279 | 15,590,603 |
| **Total cost** | **11,886,838** | **15,240,273** | **27,566,610** | **24,513,877** |
| **Cost-to-income ratio** | **51.4%** | **39.8%** | **25.6%** | **37.4%** |

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

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| | (TL thousands, except percentages) | | | |
| Personnel expenses | 4,419,743 | 6,045,979 | 10,141,331 | 8,923,274 |
| Other operating expenses | 7,467,095 | 9,194,294 | 17,425,279 | 15,590,603 |
| **Operating expenses** | **11,886,838** | **15,240,273** | **27,566,610** | **24,513,877** |
| Average total assets | 502,522,670 | 665,091,732 | 1,144,109,433 | 1,681,378,599 |
| **Nonannualised operating expenses as a percentage of average total assets** | **2.4%** | **2.3%** | **2.4%** | **1.5%** |
| Annualisation factor | NA | NA | NA | 2.00 |
| **Operating expenses as a percentage of average total assets** | **2.4%** | **2.3%** | **2.4%** | **1.5%** |

The calculation of the Group's NPL ratio for the indicated dates is as follows:

| | As of 31 December | | | As of |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 30 June 2023 |
| | (TL thousands, except percentages) | | | |
| Loans | 344,550,094 | 491,118,106 | 769,289,135 | 1,016,344,690 |
| NPLs | 16,118,312 | 18,344,496 | 20,289,804 | 22,283,834 |
| **Total loans** | **360,668,406** | **509,462,602** | **789,578,939** | **1,038,628,524** |
| **NPL ratio** | **4.5%** | **3.6%** | **2.6%** | **2.1%** |

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 |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 30 June 2023 |
| | (TL thousands, except percentages) | | | |
| Expected credit losses (Stage 3) | 10,215,084 | 12,185,034 | 14,689,002 | 15,640,701 |
| Expected credit losses (Stages 1 & 2) | 10,753,679 | 17,267,110 | 25,397,287 | 32,446,129 |
| **Total provisions** | **20,968,763** | **29,452,144** | **40,086,289** | **48,086,830** |
| NPLs | 16,118,312 | 18,344,496 | 20,289,804 | 22,283,834 |
| **Expected credit losses to NPLs** | **130.1%** | **160.6%** | **197.6%** | **215.8%** |

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

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| | *(TL thousands, except percentages)* | | | |
| Net profit/(loss) | 6,715,352 | 13,587,564 | 58,510,306 | 33,809,740 |
| Average shareholders' equity | 59,260,758 | 71,367,635 | 123,461,491 | 181,474,499 |
| **Nonannualised return on average shareholders' equity** | **11.38%** | **19.0%** | **47.4%** | **19.7%** |
| Annualisation factor | NA | NA | NA | 2.00 |
| **Return on average shareholders' equity** | **11.3%** | **19.0%** | **47.4%** | **39.6%** |

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

| | 2020 | 2021 | 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|
| | *(TL thousands, except percentages)* | | | |
| Net profit/(loss) | 6,715,352 | 13,587,564 | 58,510,306 | 33,809,740 |
| Average total assets | 502,522,660 | 665,091,732 | 1,144,109,433 | 1,681,378,599 |
| **Nonannualised return on average total assets** | **1.3%** | **2.0%** | **5.1%** | **2.0%** |
| Annualisation factor | NA | NA | NA | 2.00 |
| **Return on average total assets** | **1.3%** | **2.0%** | **5.1%** | **4.1%** |

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 30 June 2023 |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | |
| | *(TL thousands, except percentages)* | | | |
| Expected credit losses (Stage 3) | 4,680,637 | 7,684,463 | 6,288,528 | 3,492,915 |
| Expected credit losses (Stages 1 & 2) | 9,650,313 | 13,271,310 | 19,716,512 | 18,849,201 |
| **Total provision expenses** | **14,330,950** | **20,955,773** | **26,005,040** | **22,342,116** |
| Collections | (4,579,702) | (8,663,167) | (10,381,297) | (13,027,234) |
| **Net provision expense** | **9,751,248** | **12,292,606** | **15,623,743** | **9,314,882** |
| Average total loans | 320,989,126 | 414,281,024 | 644,810,356 | 927,170,769 |
| **Nonannualised expected credit losses to gross loans** | **3.0%** | **3.0%** | **2.4%** | **1.0%** |
| Annualisation factor | NA | NA | NA | 2.00 |
| **Expected credit losses to gross loans** | **3.0%** | **3.0%** | **2.4%** | **2.0%** |

**Analysis of Results of Operations for the six months ended 30 June 2022 and 2023 and the years ended 31 December 2020, 2021 and 2022**

As of 30 June 2023, the Bank had the following market shares among commercial banks (each as measured on a bank-only basis): (a) based upon BRSA weekly data, 10.0% of performing loans, 14.5% of consumer loans (including credit cards), 8.2% of consumer mortgage loans, 18.6% of consumer credit cards, 11.6% in customer deposits and 13.5% in customer demand deposits, and (b) based upon BRSA monthly data, 10.2% of total assets, 13.3% in net fees and commissions and 16.3% in net income.

The following summary financial and operating data as of and for the years ended 31 December 2020, 2021 and 2022 and the six months ended 30 June 2022 and 2023 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 statement of profit or loss for the indicated periods, the components of which are described in greater detail in the following sections:

| | 2020 | 2021 | 2022 | Six months ended 30 June 2022 | Six months ended 30 June 2023 |
|---|---|---|---|---|---|
| | | | (*TL thousands*) | | |
| Interest income | 39,393,261 | 60,192,823 | 132,800,968 | 48,418,679 | 82,523,503 |
| Interest expense | (14,000,693) | (24,128,432) | (44,708,341) | (17,438,064) | (45,747,788) |
| **Net interest income** | **25,392,568** | **36,064,391** | **88,092,627** | **30,980,615** | **36,775,715** |
| Net fees and commissions income/expenses | 6,587,665 | 9,194,510 | 18,146,320 | 7,087,881 | 14,274,584 |
| Dividend income | 22,178 | 27,996 | 94,753 | 62,685 | 44,378 |
| Net trading income/losses (net) | 702,894 | 4,735,886 | 10,512,298 | 5,935,748 | 18,809,868 |
| Other operating income | 6,880,312 | 12,078,152 | 17,449,406 | 9,859,518 | 17,897,686 |
| **Total operating profit** | **39,585,617** | **62,100,935** | **134,295,404** | **53,926,447** | **87,802,231** |
| Expected credit losses[1] | (18,159,994) | (28,450,165) | (29,741,042) | (15,571,995) | (22,393,930) |
| Other operating expenses | (11,886,838) | (15,240,273) | (27,566,610) | (11,058,136) | (24,513,877) |
| **Profit/(loss) before taxes** | **9,538,785** | **18,410,497** | **76,987,752** | **27,296,316** | **40,894,424** |
| Provision for taxes | (2,823,433) | (4,822,933) | (18,477,446) | (6,115,293) | (7,084,684) |
| **Net profit/(loss)** | **6,715,352** | **13,587,564** | **58,510,306** | **21,181,023** | **33,809,740** |
| Attributable to equityholders of the Bank | 6,635,279 | 13,466,741 | 58,285,378 | 21,084,901 | 33,584,124 |
| Attributable to minority interests | 80,073 | 120,823 | 224,928 | 96,122 | 225,616 |

(1) Includes other provisions.

***Results of Operations for the six months ended 30 June 2022 and 2023***

*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 six months of 2023 was TL 33,809,740 thousand, increasing by 59.6% from TL 21,181,023 thousand for the same period of 2022. The net profit/(loss) for these periods was affected by certain exceptional items, which are quantified in the table below:

| | Six months ended 30 June 2022 | Six months ended 30 June 2023 |
|---|---|---|
| *Exceptional items* | (*TL thousands*) | |
| Sale of assets | 1,012,000 | 524,071 |
| Sale of NPLs | 120,400 | - |
| Other income | - | - |
| Central Bank administrative fine[1] | 160,038 | (127,000) |
| General reserves[2] | - | 2,000,000 |
| Tax effects of the items listed above | 156,600 | 159,495 |
| **Total impact on net profit/(loss)** | **1,135,838** | **2,237,576** |
| Net profit/(loss) | 21,181,023 | 33,809,740 |
| **Net profit/(loss) adjusted for exceptional items** | **20,045,185** | **31,572,164** |

(1) The fine in 2023 resulted from the Central Bank's application of an additional fee of a "penal nature" to Turkish banks (including the Bank) on the grounds that they did not fulfil their obligation to inform the Central Bank about spot foreign currency transfers abroad. The positive amount in the first six months of 2022 reflects the reversal of fines.

(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 opinion. Should the Bank's management determine that market conditions have improved to such an extent that such additional reserves 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 57.5% in the first six months of 2023 from the same period of the prior year, which change was mainly due to increasing net interest income, net fees and commissions and trading 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:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2022** | **2023** |
| Net interest income | 57.4% | 41.9% |
| Net fees and commissions income/expenses | 13.1% | 16.3% |
| Dividend income | 0.1% | 0.1% |
| Net trading income/losses | 11.0% | 21.4% |
| Other operating income | 18.3% | 20.4% |

*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 57.4% and 41.9% of the Group's total operating profit in the first six months of 2022 and 2023, respectively.

Net interest income amounted to TL 36,775,715 thousand in the first six months of 2023, which was a 18.7% increase from TL 30,980,615 thousand in the same period of the prior year. This increase was primarily due to higher income on loans and CPI-linked securities.

The Group's net interest margin was 5.7% in the first six months of 2023, which was a decline from 9.1% for full year 2022. This decline resulted primarily from higher funding costs and lower loan yields. Despite the low policy rate (8.50% as of March 2023; *however*, after the presidential elections in May 2023, the Central Bank increased the rate in steps to 25.00%, though (as of 7 September 2023) such rate remains well below the level of inflation), the costs for Turkish Lira deposits increased notably due to increased competition for Turkish Lira deposits among Turkish banks as a result of regulatory changes intended to encourage the Liraisation of the economy. On the other hand, yields on Turkish Lira-denominated loans experienced a downward trend due to the alignment of commercial loan interest rates to a regulatory cap designed to incentivise banks to avoid being required to purchase additional low-yielding Turkish government securities (See "Turkish Regulatory Environment – Liquidity and Reserve Requirements"). In this environment, the Bank's management managed loan growth to seek an optimal balance that minimised the negative impact of these regulatory changes while reducing the duration gap in order to position the balance sheet for an expected increasing interest rate environment. 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 six months of 2023, the Group's interest income increased by 70.4% to TL 82,523,503 thousand from TL 48,418,679 thousand for the same period of 2022. The following table sets out the interest-earnings on the Group's interest-earning assets during the indicated periods:

| | Six months ended 30 June | |
|---|---|---|
| | 2022 | 2023 |
| | (TL thousands) | |
| Interest income on loans | 34,965,741 | 59,079,994 |
| Interest income on reserve deposits | 284,070 | 283,680 |
| Interest income on banks | 154,524 | 1,482,550 |
| Interest income on money market transactions | 1,697,113 | 1,602,664 |
| Interest income on securities portfolio | 10,389,678 | 17,702,534 |
| Financial lease income | 644,563 | 1,563,024 |
| Other interest income | 282,990 | 809,057 |
| **Total interest income** | **48,418,679** | **82,523,503** |

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 six months of 2023 compared to the same period of the previous year, the change in interest income was principally due to a 69.0% 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 six months of 2023 increased by 70.4% when compared to the same period of 2022.

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.

| | Six months ended 30 June | |
|---|---|---|
| | 2022 | 2023 |
| **Total average yield for the Bank** | **14.22%** | **14.85%** |
| Deposits at banks | 6.88% | 5.45% |
| Investments in securities | 18.63% | 17.11% |
| Loans and advances to customers | 14.12% | 15.38% |
| **Total average yield for the Group** | **12.79%** | **12.71%** |

The increase in the yield earned by the Bank in the first six months of 2023 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 on deposits.

*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 six months of 2023, the Group's interest expense increased by 162.3% to TL 45,747,788 thousand from TL 17,438,064 thousand in the same period of 2022. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during the indicated periods:

| | Six months ended 30 June | |
|---|---|---|
| | 2022 | 2023 |
| | (TL thousands) | |
| Interest on deposits | 13,718,492 | 39,294,577 |
| Interest on funds borrowed | 1,114,418 | 3,072,972 |
| Interest on money market transactions | 378,861 | 1,059,343 |
| Interest on securities issued | 1,500,425 | 1,319,476 |
| Lease interest expense | 80,734 | 125,972 |
| Other interest expenses | 645,134 | 875,448 |
| **Total interest expense** | **17,438,064** | **45,747,788** |

The increase in the Group's interest expense in the first six months of 2023 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 (40.4% and 45.4%, respectively, as of 30 June 2022 and 2023), 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:

| | Six months ended 30 June | |
|---|---|---|
| | 2022 | 2023 |
| **Total interest rates for the Bank** | **7.88%** | **13.36%** |
| Deposits | 8.39% | 14.47% |
| Short-term debt (one year or less) | 10.63% | 14.66% |
| Long-term debt | 6.06% | 9.87% |
| Repurchase agreements | 9.71% | 4.72% |
| **Total interest rates for the Group** | **7.33%** | **11.57%** |

The change in interest rates was primarily a result of complying with new regulatory measures. 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. As of 7 September 2023, the Bank's management expects the contribution of fee and commission income to the Group's overall operating income to increase, particularly with the contribution of lending, money transfer and payment system fees.

The Group's net fees and commissions income/expenses for the first six months of 2023 was TL 14,274,584 thousand, an increase of 101.4% from TL 7,087,881 thousand for the same period of the prior year. This change was primarily driven by credit card and consumer loan originations and money transfer fees, both of which resulted from the strong growth in the economy and high inflation.

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

| | Six months ended 30 June | |
|---|---|---|
| | 2022 | 2023 |
| | *(TL thousands)* | |
| **Fees and commissions received** | **9,962,620** | **19,224,422** |
| Non-cash loans | 825,086 | 1,447,097 |
| Others | 9,137,534 | 17,777,325 |
| **Fees and commissions paid** | **2,874,739** | **4,949,838** |
| Non-cash loans | 35,314 | 32,324 |
| Others | 2,839,425 | 4,917,514 |
| **Net Fees and Commissions Income** | **7,087,881** | **14,274,584** |

*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 62,638 thousand in the first six months of 2022 and TL 44,378 thousand in the same period of 2023.

*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 six months of 2022, the Group experienced a net trading income of TL 5,935,748 thousand, compared with net trading gains of TL 18,809,868 thousand in the same period of 2023. These net trading gains in 2022 and 2023 resulted from foreign exchange gain. 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:

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | **2023** |
| | *(TL thousands)* | |
| **Trading Income** | | |
| Trading account income | 5,347,565 | 5,097,224 |
| Derivative financial instruments | 31,188,564 | 28,719,954 |
| Foreign exchange gain | 150,115,337 | 157,696,844 |
| **Total trading income** | **186,651,466** | **191,514,022** |
| **Trading Losses** | | |
| Trading account losses | (838,948) | (1,648,134) |
| Derivative financial instruments | (50,312,494) | (34,453,222) |
| Foreign exchange losses | (129,564,276) | (136,602,798) |
| **Total trading losses** | **(180,715,718)** | **(172,704,154)** |
| **Net trading income/losses** | **5,935,748** | **18,809,868** |

*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 16,994,916 thousand in the first six months of 2023, increasing by 81.3% from TL 9,373,061 thousand in the same period of 2022. The following table sets out the Group's other operating income by category for the indicated periods:

| | Six months ended 30 June | |
|---|---|---|
| | **2022** | **2023** |
| | *(TL thousands)* | |
| Prior Year Reversals | 6,405,542 | 13,027,234 |
| *Stage 1* | 3,320,043 | 5,565,973 |
| *Stage 2* | 1,588,977 | 3,306,666 |
| *Stage 3* | 1,290,597 | 1,739,359 |
| *Others* | 205,925 | 2,415,236[(1)] |
| Income from term sale of assets | 395,751 | 51,247 |
| Others | 2,571,768 | 3,916,435 |
| **Other operating income** | **9,373,061** | **16,994,916** |

(1) Includes the reversal of TL 2,000,000 thousand in general reserves.

During the first six months of 2022, TL 189.9 thousand in non-performing receivables of the Group were sold; *however*, there were no such sales by the Group in the first six months of 2023.

*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 by category during the indicated periods:

| | Six months ended 30 June | |
|---|---|---|
| | 2022 | 2023 |
| | *(TL thousands)* | |
| **Expected credit losses** | **13,382,139** | **22,342,116** |
| *12 month ECL (Stage 1)* | 4,470,162 | 5,433,769 |
| *Significant increase in credit risk (Stage 2)* | 5,545,410 | 13,415,432 |
| *Impaired credits (Stage 3)* | 3,366,567 | 3,492,915 |
| **Impairment losses on securities** | **85,893** | **-** |
| *Financial assets measured at fair value through profit or loss* | 85,893 | - |
| *Financial assets measured at fair value through other comprehensive income* | - | - |
| **Impairment losses on associates, subsidiaries and joint-ventures** | **373** | **-** |
| *Associates* | 373 | - |
| *Subsidiaries* | - | - |
| *Joint-ventures (business partnership)* | - | - |
| **Others[(1)]** | **2,103,590** | **51,814** |
| **Total** | **15,571,995** | **22,393,930** |

(1) Includes general reserves amounting to a reversal of TL 2,000,000 thousand in the first six months of 2023.

The following table sets out the Group's expected credit losses for loans during the first six months of both 2022 and 2023:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | | *(TL thousands)* | | |
| **Balances at beginning of period (1 January 2022)** | **2,937,910** | **14,329,200** | **12,185,034** | **29,452,144** |
| Additions during the period (+) | 4,767,253 | 3,787,021 | 8,964,736 | 17,519,010 |
| Disposal (-) | (4,986,098) | (2,124,240) | (1,168,930) | (8,279,268) |
| Debt sale (-) | - | (76,193) | (189,978) | (266,171) |
| Write-offs (-) | - | - | (7,753,909) | (7,753,909) |
| Transfer to Stage 1 | 2,034,073 | (2,029,703) | (4,370) | - |
| Transfer to Stage 2 | (440,440) | 524,314 | (83,874) | - |
| Transfer to Stage 3 | (9,901) | (522,578) | 532,479 | - |
| Foreign currency differences | 271,201 | 2,377,886 | 1,320,531 | 3,969,618 |
| **Balance as of 30 June 2022** | **4,573,998** | **16,265,707** | **13,801,719** | **34,641,424** |
| **Balances at beginning of period (1 January 2023)** | **4,490,335** | **20,906,952** | **14,689,002** | **40,086,289** |
| Additions during the period (+) | 4,018,653 | 8,816,279 | 1,491,211 | 14,326,143 |
| Disposal (-) | (5,936,070) | (5,327,568) | (1,710,233) | (12,973,871) |
| Debt sale (-) | - | - | - | - |
| Write-offs (-) | - | - | (1,050,522) | (1,050,522) |
| Transfer to Stage 1 | 2,758,497 | (2,735,642) | (22,855) | - |
| Transfer to Stage 2 | (962,347) | 1,038,355 | (76,008) | - |
| Transfer to Stage 3 | (12,459) | (1,318,066) | 1,330,525 | - |
| Foreign currency differences | 562,301 | 6,146,909 | 989,581 | 7,698,791 |
| **Balance as of 30 June 2023** | **4,918,910** | **27,527,219** | **15,640,701** | **48,086,830** |

The Group's NPL ratio was 2.1% as of 30 June 2023 as compared to 2.6% as of 31 December 2022, which change was principally the result of the increase in the size of the loan portfolio (*i.e.*, a denominator effect). During the first six months of 2022, TL 189,978 thousand in NPLs were sold; *however*, there were no such sales by the Group in the first six months of 2023.

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 135,499,351 thousand as of 30 June 2023 (as compared to TL 107,204,867 thousand as of 31 December 2022), 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.

There were no additional general reserves in the first six months of 2022 but, during the first six months of 2023, the Bank's management (in light of the normalisation of the macro-economic conditions after the May 2023 elections) reversed TL 2,000,000 thousand of such general reserves, resulting in outstanding general reserves of TL 6,000,000 thousand as of 30 June 2023. 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 2020, 2021 and 2022 - 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 two years, (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 106.9% to TL 8,923,274 thousand in the first six months of 2023 from TL 4,312,436 thousand in the same period of 2022. 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 2023 and 2024.

*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 six months of 2023 increased by 131.1% to TL 15,590,603 thousand from TL 6,745,700 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) increased from 25.6% in full year 2022 to 37.4% in the first six months of 2023, which change was due to increasing expenses, including as a result of multiple salary adjustments as a result of very high levels of inflation and donations relating to the February 2023 earthquakes. A similar ratio monitored by the Group is its operating expenses to average total assets ratio, which ratio was 1.5% during the first six months of 2023, decreasing from 2.4% in full year 2022.

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

| | Six months ended 30 June | |
|---|---|---|
| | 2022 | 2023 |
| | (TL thousands) | |
| Reserve for employee termination benefits | 126,773 | 440,040 |
| Impairment losses on tangible assets | 868 | - |
| Depreciation expenses of tangible assets | 246,236 | 460,952 |
| Impairment losses on intangible assets | - | - |
| Amortisation expenses of intangible assets | 137,612 | 194,597 |
| Impairment losses on assets to be disposed | - | - |
| Depreciation expenses of right-of-use assets | 194,420 | 297,443 |
| Impairment losses on assets held for sale and discontinued assets | 818 | 205 |
| Operational lease-related expenses | 113,457 | 175,909 |
| Repair and maintenance expenses | 78,171 | 142,546 |
| Advertisement expenses | 162,879 | 379,988 |
| Loss on sale of assets | 11,121 | 110 |
| Other expenses[(1)] | 4,013,844 | 9,911,098 |
| Others[(2)] | 1,659,501 | 3,587,715 |
| **Other operating expenses** | **6,745,700** | **15,590,603** |

(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 Interim Financial Statements.

(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 Interim Financial Statements.

*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 six months of 2023 amounted to TL 10,995,898 thousand, which was a 44.8% increase from TL 7,593,236 thousand in the same period of 2022. The Group's taxation charges during the first six months of 2023 included a deferred tax credit of TL 3,911,214 thousand whereas in the same period of 2022 the deferred tax credit was TL 1,477,943 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 six months of 2023 as compared to the same period of the prior year 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 2020, 2021 and 2022 but was then further increased to 25% for the last three quarters of 2021 and 23% for fiscal periods that start 2022. 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 six months of 2022 and 2023 was 17.3% and 22.4%, respectively. The deviations from the applicable tax rate in these periods were primarily due to the revaluation of fixed assets. 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%, 25% or 23%, 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 six months of both 2022 and 2023.

***Results of Operations for the years ended 31 December 2020, 2021 and 2022***

*Net Profit/(Loss)*

The Group's net profit/(loss) for 2020 was TL 6,715,352 thousand, increasing by 102.3% to TL 13,587,564 thousand in 2021 and then increasing by a further 330.6% to TL 58,510,306 thousand in 2022. The net profit/(loss) for these three years was affected by certain exceptional items, which are quantified in the table below:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| *Exceptional items* | | *(TL thousands)* | |
| General reserves[(1)] | 2,150,000 | 2,850,000 | 500,000 |
| Gain of asset sale | - | (511,945) | (1,345,312) |
| NPL sale | - | - | (284,401) |
| Administrative fine reversal | - | - | (160,038) |
| Tax effects of the items listed above | - | 127,986 | 236,020 |
| **Total impact on net profit/(loss)** | **2,150,000** | **2,466,041** | **(1,053,732)** |
| Net profit/(loss) | 6,715,352 | 13,587,564 | 58,510,306 |
| **Net profit/(loss) adjusted for exceptional items** | **8,865,352** | **16,053,605** | **57,456,574** |

(1) See "Provisions for Expected Credit Losses" above. As such general provisions 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 257.9% in 2022 from 2021, which itself increased by 88.1% from 2020. In 2021, the increase was mainly due to increasing net interest income and fee income and lower net provisions. In 2022, the change was primarily driven by a significant increase in net interest income, including as a result of income of CPI-linked securities, as well as higher fees and significant trading income, all of which increased at a higher rate than the increase in operating expenses.

*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 the indicated years:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| Net interest income | 64.1% | 58.1% | 141.9% |
| Net fees and commissions income/expenses | 16.6% | 14.8% | 29.2% |
| Dividend income | 0.1% | 0.0% | 0.2% |
| Net trading income/losses | 1.8% | 7.6% | 16.9% |
| Other operating income | 17.4% | 19.4% | 28.1% |

*Net Interest Income*

Net interest income represented 64.1%, 58.1% and 141.9% of the Group's total operating profit in 2020, 2021 and 2022, respectively. Net interest income amounted to TL 88,092,627 thousand in 2022, which was a 144.3% increase from TL 36,064,391 thousand in 2021, which itself was a 42.0% increase from TL 25,392,568 thousand in 2020. 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 2021 and 2022. In 2021, upward repricing in the second half of the year and, in 2022, strong lending activity supported the Group's interest income on loans.

The Group's net interest margin was 6.1%, 6.5% and 9.1%, respectively, in 2020, 2021 and 2022. In 2021, the net interest margin increased primarily due to increases in income on CPI-linked securities. In 2022, the Group's core net interest margin also expanded, primarily due to lower funding costs, especially in the first half of the year, and an increase in interest income as a result of significant increases in loans.

In 2021, the Group's average spread decreased slightly, which was principally due to increased deposit costs when compared to 2020. In 2022, 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 2022, the Group's interest income increased by 120.6% to TL 132,800,968 thousand from TL 60,192,823 thousand in 2021, which itself was a 52.8% increase from TL 39,393,261 thousand in 2020. The following table sets out the interest-earnings on the Group's interest-earning assets during each of the indicated years:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| Interest income on loans | 30,919,973 | 45,580,108 | 85,245,876 |
| Interest income on reserve deposits | 82,696 | 906,933 | 296,237 |
| Interest income on banks | 240,998 | 172,009 | 718,077 |
| Interest income on money market transactions | 749,549 | 2,061,232 | 2,760,820 |
| Interest income on securities portfolio | 6,558,261 | 10,214,238 | 41,555,705 |
| Financial lease income | 505,551 | 738,060 | 1,565,010 |
| Other interest income | 336,233 | 520,243 | 659,243 |
| **Total interest income** | **39,393,261** | **60,192,823** | **132,800,968** |

As noted above, interest income is a function of both the volume of, and yield earned on, the Group's interest-earning assets. In 2021, the increase in interest income was principally due to a 47.4% 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. In 2022, the contribution from CPI-linked securities increased due to the higher levels of inflation and increased lending activity also supported growth in the Group's interest income on loans.

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."

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| **Total average yield for the Bank** | **10.63%** | **13.21%** | **17.36%** |
| Deposits at banks | 3.94% | 9.81% | 5.05% |
| Investments in securities | 12.21% | 16.56% | 31.61% |
| Loans and advances to customers | 10.88% | 12.92% | 15.43% |
| **Total average yield for the Group** | **9.19%** | **10.82%** | **14.33%** |

The increase in the yield earned by the Bank in 2021 compared to 2020 primarily resulted from the income on CPI-linked securities and core spread. In 2022, the increase in yields was largely due to the higher yield on CPI-linked securities as a result of increasing inflation and higher yields on loans in a high growth environment.

*Interest Expense.* In 2022, the Group's interest expense decreased by 85.3% to TL 44,708,341 thousand from TL 24,128,432 thousand in 2021, itself an increase of 72.3% from TL 14,000,693 thousand in 2020. The following table sets out the interest expense on the Group's interest-bearing liabilities by category during each of the indicated years:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| Interest on deposits | 9,437,262 | 19,443,102 | 34,307,435 |
| Interest on funds borrowed | 1,347,055 | 1,256,488 | 3,184,986 |
| Interest on money market transactions | 333,448 | 372,542 | 1,105,104 |
| Interest on securities issued | 2,328,935 | 2,870,828 | 3,068,434 |
| Lease interest expense | 133,480 | 127,852 | 173,890 |
| Other interest expenses | 420,513 | 57,620 | 2,868,492 |
| **Total interest expense** | **14,000,693** | **24,128,432** | **44,708,341** |

The increase in the Group's interest expense in 2021 was principally in line with the increase in the size of its funding base and interest rates, whereas the increase in 2022 was the result of regulatory changes resulting in heavier competition among

Turkish banks 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 (44.6%, 40.3% and 43.6%, respectively, as of 31 December 2020, 2021 and 2022), 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:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| **Total interest rates for the Group** | **5.05%** | **7.20%** | **7.70%** |
| **Total interest rates for the Bank** | **5.26%** | **7.83%** | **8.83%** |
| Deposits | 5.01% | 8.55% | 9.00% |
| Short-term debt (one year or less) | 5.20% | 5.49% | 11.87% |
| Long-term debt | 5.88% | 5.48% | 8.15% |
| Repurchase agreements | 7.66% | 7.49% | 8.67% |

In 2022, the increase in the interest rates was principally due to the increased cost of foreign currency-denominated obligations (which, when translated into Turkish Lira terms, increased significantly as a result of the depreciation of the Turkish Lira). In 2022, deposit costs (particularly in the second half of the year) increased due to heavier competition among Turkish banks for Turkish Lira deposits as a result of regulatory changes implemented by the Central Bank as part of its Liraisation strategy. 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 2022 was TL 18,146,320 thousand, an increase of 97.4% from TL 9,194,510 thousand, itself an increase of 39.6% from TL 6,587,665 thousand in 2020. In 2021, the Group sustained strong growth momentum due particularly to the growth in credit cards, non-cash loan fees and money transfer fees. In 2022, the growth in net fees and commissions income was driven by increasing loan generation and higher transaction volumes as a result of increasing economic activity.

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

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| **Fees and commissions income** | **8,296,891** | **12,552,178** | **25,181,084** |
| Non-cash loans | 781,528 | 1,107,081 | 1,908,133 |
| Others | 7,515,363 | 11,445,097 | 23,272,951 |
| **Fees and commissions expenses** | **1,709,226** | **3,357,668** | **7,034,764** |
| Non-cash loans | 23,250 | 45,293 | 71,015 |
| Others | 1,685,976 | 3,312,375 | 6,963,749 |
| **Net fees and commissions income/expenses** | **6,587,665** | **9,194,510** | **18,146,320** |

*Dividend Income*

Dividend income of TL 22,178 thousand in 2020, TL 27,996 thousand in 2021 and TL 94,753 thousand in 2022 each represented less than 0.12% of the Group's total operating profit for the year.

*Net Trading Income/Losses*

In 2020, the Group experienced a net trading gain of TL 702,894 thousand, which was followed by a net trading gain of TL 4,735,886 thousand and a net trading gain of TL 10,512,298 thousand, respectively, in 2021 and 2022. In 2020, the net trading gain primarily resulted from foreign currency buy and sell activity, which continued in 2021 and 2022 as a result of the high levels of volatility in the Turkish Lira, which gain more than offset swap funding costs.

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

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| **Trading income** | | | |
| Trading account income | 1,813,299 | 4,808,478 | 4,893,527 |
| Derivative financial instruments | 13,715,437 | 30,571,910 | 41,996,522 |
| Foreign exchange gain | 142,355,207 | 378,857,962 | 242,447,739 |
| **Total trading income** | **157,883,943** | **414,238,350** | **289,337,788** |
| **Trading losses** | | | |
| Trading account losses | (1,238,967) | (1,746,525) | (3,082,272) |
| Derivative financial instruments | (19,936,534) | (35,822,342) | (64,115,593) |
| Foreign exchange losses | (136,005,548) | (371,933,597) | (211,627,625) |
| **Total trading losses** | **(157,181,049)** | **(409,502,464)** | **(278,825,490)** |
| **Net trading income/losses** | **702,894** | **4,735,886** | **10,512,298** |

*Other Operating Income*

Total other operating income was TL 6,550,123 thousand in 2020, increasing by 76.0% in 2021 to TL 11,525,710 thousand and further increasing by 42.9% in 2022 to TL 16,465,378 thousand. The following table sets out the Group's other operating income by category for the indicated years:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| Prior Year Reversals | 4,579,702 | 8,663,167 | 10,381,297 |
| *Stage 1* | 1,317,604 | 3,392,115 | 4,614,011 |
| *Stage 2* | 1,645,664 | 3,056,972 | 2,695,178 |
| *Stage 3* | 1,421,253 | 1,934,748 | 2,800,678 |
| *Others* | 195,181 | 279,332 | 271,430 |
| Income from term sale of assets | 138,213 | 511,945 | 623,848 |
| Others | 1,832,208 | 2,350,598 | 5,460,233 |
| **Other operating income** | **6,550,123** | **11,525,710** | **16,465,378** |

In 2020, 2021 and 2022, non-performing loans, lease receivables and factoring receivables of the Bank and/or its consolidated financial subsidiaries amounting to TL 147,010 thousand, TL 665,407 thousand and TL 829,066 thousand, respectively, were sold. After reflecting the related provisions that had been provided for in prior periods, a gain from these sales amounting to TL 30,670 thousand, TL 7,699 thousand and TL 7,702 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:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| **Expected credit losses** | **14,330,950** | **20,955,773** | **26,005,040** |
| *12 month ECL (Stage 1)* | *2,749,573* | *3,257,367* | *6,328,589* |
| *Significant increase in credit risk (Stage 2)* | *6,900,740* | *10,013,943* | *13,387,923* |
| *Impaired credits (Stage 3)* | *4,680,637* | *7,684,463* | *6,288,528* |
| **Impairment losses on securities** | **62,208** | **86,577** | **304,558** |
| *Financial assets measured at fair value through profit or loss* | *56,806* | *86,577* | *304,558* |
| *Financial assets measured at fair value through other comprehensive income* | *5,402* | - | - |
| **Impairment losses on associates, subsidiaries and joint-ventures** | **295,281** | **86,674** | **19,102** |
| *Associates* | *295,281* | - | *19,102* |
| *Subsidiaries* | - | *86,674* | - |
| *Joint-ventures (business partnership)* | - | - | - |
| **Others[(1)]** | **3,471,555** | **7,407,816** | **3,412,342** |
| **Total** | **18,159,994** | **28,536,840** | **29,741,042** |

(1) Includes general reserves amounting to TL 2,150,000 thousand in 2020, TL 2,850,000 thousand in 2021 and TL 500,000 thousand in 2022.

The following table sets out the Group's expected credit losses for loans as of 31 December 2020, 2021 and 2022:

| | 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 (+) | 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** |
| Additions during the period (+) | 4,672,571 | 9,110,670 | 3,074,673 | 16,857,914 |
| Disposal (-) | (5,388,472) | (5,138,799) | (1,635,436) | (12,162,707) |
| Debt sale (-) | - | (8,191) | (654,887) | (663,078) |
| Write-offs (-) | - | - | (3,499,529) | (3,499,529) |
| Transfer to Stage 1 | 1,869,814 | (1,861,372) | (8,442) | - |
| Transfer to Stage 2 | (705,111) | 885,154 | (180,043) | - |
| Transfer to Stage 3 | (18,396) | (1,492,548) | 1,510,944 | - |
| Foreign currency differences | 318,293 | 4,269,818 | 3,362,670 | 7,950,781 |
| **Balance as of 31 December 2021** | **2,937,910** | **14,329,200** | **12,185,034** | **29,452,144** |
| Additions during the period (+) | 9,913,170 | 11,434,422 | 10,806,650 | 32,154,242 |
| Disposal (-) | (11,443,476) | (5,271,309) | (2,179,547) | (18,894,332) |
| Debt sale (-) | - | (76,277) | (762,572) | (838,849) |
| Write-offs (-) | - | - | (8,255,121) | (8,255,121) |
| Transfer to Stage 1 | 3,660,263 | (3,649,806) | (10,457) | - |
| Transfer to Stage 2 | (1,024,508) | 1,121,382 | (96,874) | - |
| Transfer to Stage 3 | (18,367) | (1,286,569) | 1,304,936 | - |
| Foreign currency differences | 465,343 | 4,305,909 | 1,696,953 | 6,468,205 |
| **Balance as of 31 December 2022** | **4,490,335** | **20,906,952** | **14,689,002** | **40,086,289** |

The Group's NPL ratio was 4.5% as of 31 December 2020 and then decreased to 3.6% as of 31 December 2021 before declining further to 2.6% as of 31 December 2022. The decline in 2021 was principally caused by the BRSA's temporary forbearance measures and the Bank's strong collection performance and significant increase in total loans whereas the decline in 2022 result from strong collection performance and loan growth.

The effect of NPL sales on the Group's NPL ratio was to reduce it by 0.04%, 0.13% and 0.10% in 2020, 2021 and 2022, 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 59,278,424 thousand, TL 85,347,714 thousand and TL 107,204,867 thousand, respectively, as of 31 December 2020, 2021 and 2022, 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 2,150,000 thousand (to TL 4,650,000 thousand) in 2020, by TL 2,850,000 thousand (to TL 7,500,000 thousand) in 2021 and by TL 500,000 thousand (to TL 8,000,000 thousand) in 2022, 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 11,150 thousand, TL 63,380 thousand and TL 7,588,107 thousand, respectively, as of 31 December 2020, 2021 and 2022, with the large increase in 2022 relating to one corporate loan that had been in restructuring for a number of years and for which the balance was written-off in the third quarter of 2022.

As of 31 December 2022, the Bank's written-down "Group V" loans amounted to TL 10,837,948 thousand and the Bank's consolidated subsidiaries' written-down "Group V" loans amounted to TL 1,182,522 thousand (TL 9,447,212 thousand and TL 1,122,610 thousand, respectively, as of 31 December 2021 and TL 4,013,937 thousand and TL 715,835 thousand, respectively, as of 31 December 2020).

***Personnel Expenses***

Personnel expenses increased by 67.7% to TL 10,141,331 thousand in 2022 from TL 6,045,979 thousand in 2021, itself a 36.8% increase from TL 4,419,743 thousand in 2020. 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 2022 increased by 89.5% to TL 17,425,279 thousand from TL 9,194,294 thousand in 2021, itself a 23.1% increase from TL 7,467,095 thousand in 2020. 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) decreased from 51.4% in 2020 to 39.8% in 2021 and then further decreased to 25.6% in 2022. The changes were largely due to improved trading and fee income in 2021 and higher interest income on CPI-linked securities in 2022. The Group's operating expenses to average total assets ratio was 2.4% in 2020, 2.3% in 2021 and 2.4% in 2022.

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

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| Reserve for employee termination benefits | 109,294 | 161,030 | 245,142 |
| Impairment losses on tangible assets | 98,951 | 455 | 995 |
| Depreciation expenses of tangible assets | 395,872 | 434,499 | 527,455 |
| Impairment losses on intangible assets | - | - | - |
| Amortisation expenses of intangible assets | 165,387 | 187,094 | 288,556 |
| Impairment losses on assets to be disposed | 7,881 | 2,043 | 1,253 |
| Depreciation expenses of right-of-use assets | 340,696 | 321,121 | 425,767 |
| Impairment losses on assets held for sale and discontinued assets | 3,635 | 1,985 | 3,286 |
| Operational lease-related expenses | 193,117 | 218,446 | 259,729 |
| Repair and maintenance expenses | 92,123 | 109,891 | 206,380 |
| Advertisement expenses | 171,995 | 271,046 | 472,760 |
| Loss on sale of assets | 1,630 | 6,803 | 19,354 |
| Other expenses(1) | 4,216,336 | 5,170,121 | 11,212,250 |
| Others(2) | 1,670,178 | 2,309,760 | 3,762,352 |
| **Other operating expenses** | **7,467,095** | **9,194,294** | **17,425,279** |

(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 2022.

(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 2022.

***Provision for Taxes***

Income taxation charges for 2022 amounted to TL 20,844,000 thousand, which was a 291% increase from TL 5,324,625 thousand in 2021, which itself was a 17% increase from TL 2,833,433 thousand in 2020. The Group's taxation charges for 2022 included a deferred tax credit of TL 2,366,554 thousand (primarily due to the revaluation of fixed assets) whereas 2021 included a deferred tax credit of TL 501,692 thousand and 2020 included a deferred tax charge of TL 1,726,541 thousand (for each of 2020 and 2021, primarily as a result of improvements in mark-to-market valuation of derivative financial instruments). The changes in the Group's taxation charges for 2021 and 2022 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 2020, 2021 and 2022 was 30.7%, 27.0% and 24.0%, respectively. The deviations from the applicable corporate tax rate of 22%, 25% and 23%, respectively, 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 2020, 2021 and 2022.

## Financial Condition

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

| *Balance Sheet Data:* | As of 31 December | | | | | | As of 30 June | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | % | 2021 | % | 2022 | % | 2023 | % |
| ***Assets:*** | *(TL thousands, except for percentages)* | | | | | | | |
| Cash and cash equivalents | 94,253,040 | 17.4 | 216,797,764 | 25.5 | 271,499,741 | 20.8 | 442,643,981 | 23.4 |
| Financial assets measured at fair value through profit/(loss) (FVTPL)[(1)] | 8,382,731 | 1.5 | 7,839,033 | 0.9 | 5,771,459 | 0.4 | 7,417,489 | 0.4 |
| Financial assets measured at fair value through other comprehensive income (FVOCI) | 36,785,565 | 6.8 | 55,746,298 | 6.6 | 88,928,400 | 6.8 | 90,917,531 | 4.8 |
| Derivative financial assets | 4,614,552 | 0.9 | 17,790,069 | 2.1 | 11,035,218 | 0.8 | 21,789,150 | 1.2 |
| Loans | 350,233,129 | 64.7 | 492,589,718 | 57.9 | 761,104,244 | 58.4 | 999,487,575 | 52.9 |
| Lease receivables | 7,508,708 | 1.4 | 12,656,284 | 1.5 | 18,932,293 | 1.5 | 27,441,822 | 1.5 |
| Factoring receivables | 2,926,569 | 0.5 | 4,216,600 | 0.5 | 9,542,402 | 0.7 | 11,699,127 | 0.6 |
| Other financial assets measured at amortised cost | 33,238,911 | 6.1 | 40,167,047 | 4.7 | 110,019,856 | 8.4 | 167,235,780 | 8.8 |
| Expected credit losses | (21,136,046) | (3.9) | (29,499,327) | (3.5) | (40,552,805) | (3.1) | (48,863,132) | (2.6) |
| Assets held for sale and assets of discontinued operations[(1)] | 931,753 | 0.2 | 585,948 | 0.1 | 780,418 | 0.1 | 810,779 | 0.0 |
| Ownership investments (net) | 601,007 | 0.1 | 1,164,524 | 0.1 | 2,280,962 | 0.2 | 3,245,947 | 0.2 |
| Tangible assets | 5,960,071 | 1.1 | 6,106,320 | 0.7 | 11,788,007 | 0.9 | 16,850,283 | 0.9 |
| Intangible assets | 614,398 | 0.1 | 963,650 | 0.1 | 1,263,022 | 0.1 | 1,546,705 | 0.1 |
| Investment property | 561,525 | 0.1 | 652,633 | 0.1 | 926,800 | 0.1 | 1,404,152 | 0.1 |
| Current tax assets | 88,983 | 0.0 | 30,727 | 0.0 | 9,604 | 0.0 | 47,515 | 0.0 |
| Deferred tax assets | 3,640,403 | 0.7 | 4,443,291 | 0.5 | 7,105,391 | 0.5 | 15,229,873 | 0.8 |
| Other assets | 12,142,018 | 2.2 | 18,225,021 | 2.1 | 43,143,471 | 3.3 | 132,188,200 | 7.0 |
| **Total assets** | **541,347,315** | **100.0** | **850,475,600** | **100.0** | **1,303,578,483** | **100.0** | **1,891,092,777** | **100.0** |
| ***Liabilities:*** | | | | | | | | |
| Deposits | 358,100,348 | 66.2 | 582,833,426 | 68.5 | 908,739,459 | 69.7 | 1,400,779,398 | 74.1 |
| Funds borrowed | 26,620,183 | 4.9 | 43,626,729 | 5.1 | 45,856,723 | 3.5 | 53,670,871 | 2.8 |
| Money markets funds | 3,163,978 | 0.6 | 15,942,789 | 1.9 | 24,299,009 | 1.9 | 46,191,201 | 2.4 |
| Securities issued (net) | 22,817,081 | 4.2 | 25,644,871 | 3.0 | 17,608,189 | 1.4 | 10,063,855 | 0.5 |
| Financial liabilities measured at FVTPL | 16,137,939 | 3.0 | 24,183,368 | 2.8 | 32,020,818 | 2.5 | 40,734,597 | 2.2 |
| Derivative financial liabilities | 8,536,890 | 1.6 | 13,428,735 | 1.6 | 10,952,360 | 0.8 | 21,165,581 | 1.1 |
| Lease payables | 1,026,367 | 0.2 | 1,070,038 | 0.1 | 1,459,250 | 0.1 | 1,958,232 | 0.1 |
| Provisions | 10,035,571 | 1.9 | 14,720,023 | 1.7 | 21,476,401 | 1.6 | 22,251,984 | 1.2 |
| Current tax liability | 2,296,347 | 0.4 | 2,972,915 | 0.3 | 8,050,327 | 0.6 | 7,346,033 | 0.4 |
| Deferred tax liability | 48,863 | 0.0 | 55,096 | 0.0 | 197,828 | 0.0 | 127,416 | 0.0 |
| Subordinated debts | 6,598,969 | 1.2 | 10,911,505 | 1.3 | 15,245,929 | 1.2 | 21,006,773 | 1.1 |
| Other liabilities | 23,121,074 | 4.3 | 34,785,250 | 4.1 | 64,548,070 | 5.0 | 77,264,963 | 4.1 |
| **Total liabilities** | **478,503,610** | **88.4** | **770,174,745** | **90.6** | **1,150,454,363** | **88.3** | **1,702,560,904** | **90.0** |
| **Shareholders' equity** | **62,843,707** | **11.6** | **80,300,855** | **9.4** | **153,124,120** | **11.7** | **188,531,873** | **10.0** |
| **Total liabilities and shareholders' equity** | **541,347,317** | **100.0** | **850,475,600** | **100.0** | **1,303,578,483** | **100.0** | **1,891,092,777** | **100.0** |

(1) As disclosed in Note 5.1.2.2 of the Group's Annual Financial Statements dated as of and for the year ended 31 December 2021, financial assets measured at fair value through profit/(loss) includes an impaired loan (later converted into equity) amounting to US$756,288,034 and US$769,872,381, respectively, as of 31 December 2020 and 2021 provided to one corporate borrower, the fair value of which was determined to be TL 4,500,540 thousand and TL 4,483,939 thousand, respectively, as of such dates. Such loan was written-off on 30 September 2022.

The following summary balance sheet data have been extracted from the Group's BRSA Financial Statements incorporated by reference herein. This information should be read in conjunction with such BRSA Financial Statements.

### *Assets*

As of 30 June 2023, the Group's total assets amounted to TL 1,891,092,777 thousand, a 45.1% increase from TL 1,303,578,483 thousand as of 31 December 2022, itself a 53.3% increase from TL 850,475,600 thousand as of 31 December 2021, which itself was a 57.1% increase from TL 541,347,317 thousand as of 31 December 2020. 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 17.4%, 25.2%, 20.8% and 23.4% of the Group's total assets as of 31 December 2020, 2021 and 2022 and 30 June 2023, 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 77.2%, 68.6%, 73.2% and 66.4%, respectively, of the Group's total assets as of 31 December 2020, 2021 and 2022 and 30 June 2023.

*Loans*. Loans to customers represented 64.7%, 57.9%, 58.4% and 52.9% of the Group's total assets as of 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. The Group's loans amounted to TL 999,487,575 thousand as of 30 June 2023, a 31.3% increase from TL 761,104,244 thousand as of 31 December 2022, itself a 54.5% increase from TL 492,589,718 thousand as of 31 December 2021, which itself was a 40.6% increase from TL 350,233,129 thousand as of 31 December 2020. 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 the impact of the KGF programme. 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 2021 and 2022 was balanced across categories, consumer loans and credit cards were the primary drivers in 2021. In the first half of 2022, Turkish Lira-denominated business banking loan growth was stronger; *however*, this growth declined in the second half of the year due to certain regulatory changes whereas the growth in credit card and consumer loans picked up pace. With respect to foreign currency-denominated loans, there were declines of 6.6% and 9.8% (calculated in U.S. dollar terms) during 2021 and 2022, respectively, principally due to redemptions and decreased demand for new loans.

In the first six months of 2023, the growth in Turkish Lira-denominated performing loans was 31.9%, which was slightly above the sector growth of 31.6%. The growth remained strong in credit card loans and consumer loans, which increased by 64.4% and 31.4%, respectively, as of 30 June 2023 from the end of the previous year. Due to the Bank's conservative lending response to a regulatory price cap on Turkish Lira-denominated commercial loans, which resulted in redemptions being higher than new originations, 8.7% growth in such commercial loans during the first six months of 2023 was below the sector's growth of 22.7%; *however*, in the second quarter of 2023 the bank increased Turkish Lira-denominated commercial loans by 9.9%, outperforming the sector's growth of 0.3%, which was largely due to the Bank's strategy to increase SME lending (in part because such category of commercial loans is less regulated). Unlike recent years, foreign currency-denominated loans increased by 1.7% in U.S. dollar terms in the first six months of 2023 as a result of growth in export loans in the first quarter of 2023.

In 2022, the Group's NPLs increased by 10.6% to TL 20,289,804 thousand as of 31 December 2022 from TL 18,344,496 thousand as of 31 December 2021, itself a 13.8% increase from TL 16,118,312 thousand as of 31 December 2020. In the first six months of 2023, the Group's NPLs increased by 9.8% to TL 22,283,834 thousand. In 2021 and 2022, the changes in NPLs were due to small increases in new NPL flows that exceeded collections, whereas the change over the first six months of 2023 was the result of strong collection performance and limited NPL inflows.

As of 31 December 2020, 2021 and 2022 and 30 June 2023, the Group's restructured loans amounted to TL 19,983,862 thousand, TL 43,324,432 thousand, TL 47,882,654 thousand and TL 52,362,295 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.

As of 31 December 2021, the Group's NPL ratio decreased to 3.6% from 4.5% as of 31 December 2020, which decrease was primarily due to the denominator effect during a time of high lending growth. In 2022, the Group's NPL ratio further decreased to 2.5%, which decline was principally the result of high lending growth compared to the limited net NPL inflows and TL 12,020,470 thousand in write-downs. The NPL ratio (after adjusting for write-downs) in 2022 would have been 4.0%. The NPL ratio then declined yet again to 2.1% as of 30 June 2023, which decline was (similar to the previous years) due to significant increase in loans during a time of limited NPL inflows and TL 1,967,358 thousand in write-downs in the first six months of 2023 (which write-downs reduced the NPL ratio to 3.4%).

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 2020, 2021 and 2022 and 30 June 2023, investment securities represented 13.7%, 11.7%, 15.7% and 14.0%, 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 June | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | % | 2021 | % | 2022 | % | 2023 | % |
| | (*TL thousands, except for percentages*) | | | | | | | |
| **Financial assets measured at fair value through profit/(loss)** | | | | | | | | |
| Government securities | 2,913,471 | 4.0 | 1,749,900 | 1.8 | 2,513,999 | 1.2 | 4,600,376 | 1.7 |
| Equity securities | 601,888 | 0.8 | 1,126,948 | 1.1 | 2,647,455 | 1.3 | 2,163,563 | 0.8 |
| Other financial assets | 366,832 | 0.5 | 478,246 | 0.5 | 551,121 | 0.3 | 645,705 | 0.2 |
| **Total financial assets measured at fair value through profit/(loss)** | **3,882,191** | **5.3** | **3,355,094** | **3.4** | **5,712,575** | **2.8** | **7,409,644** | **2.8** |
| **Financial assets measured at fair value through other comprehensive income** | | | | | | | | |
| Government securities | 31,639,296 | 42.9 | 44,649,942 | 45.0 | 77,097,126 | 37.8 | 75,902,027 | 28.5 |
| Equity securities | 312,816 | 0.4 | 521,200 | 0.5 | 1,022,719 | 0.5 | 1,584,268 | 0.6 |
| Other financial assets | 4,833,453 | 6.6 | 10,575,156 | 10.7 | 10,808,555 | 5.3 | 13,431,236 | 5.0 |
| **Total financial assets measured at FVOCI** | **36,785,565** | **49.9** | **55,746,298** | **56.2** | **88,928,400** | **43.6** | **90,917,531** | **34.1** |
| **Financial assets measured at amortised cost** | | | | | | | | |
| Government securities | 33,172,271 | 45.0 | 40,077,835 | 40.4 | 105,264,533 | 51.6 | 155,784,766 | 58.5 |
| Other financial assets | 66,640 | 0.1 | 89,212 | 0.1 | 4,755,323 | 2.3 | 11,451,014 | 4.3 |
| **Total financial assets measured at amortised cost** | **33,238,911** | **45.1** | **40,167,047** | **40.5** | **110,019,856** | **53.9** | **167,235,780** | **62.8** |
| **Expected credit losses (-)** | **(167,283)** | **(0.2)** | **(47,183)** | **0.0** | **(466,516)** | **(0.2)** | **776,302** | **0.3** |
| **Total** | **73,739,384** | **100.0** | **99,221,256** | **100.0** | **204,194,315** | **100.0** | **266,339,257** | **100.0** |

As of 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, securities issued by Türkiye represented 91.6%, 87.1%, 90.3% and 89.0% 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 2020 through the first six months of 2023 was the increase in holdings of Turkish government securities held as financial assets measured at amortised cost in the table above, which increased from 45.0% of the Group's total investment securities portfolio as of 31 December 2020 to 40.4% as of 31 December 2021, 51.6% as of 31 December 2022 and 58.5% as of 30 June 2023.

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 301,643 thousand as of 31 December 2020, TL 10,288,526 thousand as of 31 December 2021, TL 24,788,685 thousand as of 31 December 2022 and TL 46,957,684 thousand as of 30 June 2023, comprising 0.4%, 9.9%, 12.1% and 17.7%, 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 June 2023, the Group's total liabilities amounted to TL 1,702,560,904 thousand, a 67.6% increase from TL 1,150,454,363 thousand as of 31 December 2022, itself a 14.94% increase TL 770,174,745 thousand as of 31 December 2021, which itself was a 61.0% increase from TL 478,503,610 thousand as of 31 December 2020.

The Group's TL 813,226,745 thousand in average interest-bearing liabilities during the first six months of 2023 resulted primarily from average time deposits of customers (85.3%), average funds borrowed (6.2%) and average securities issued (1.1%). These same categories represented 75.4%, 10.8% and 8.8%, respectively, of the Group's TL 256,345,517 thousand in average interest-bearing liabilities during 2020, 77.3%, 10.4% and 6.6%, respectively, of the Group's TL 321,806,354 thousand in average interest-bearing liabilities during 2021 and 80.5%, 8.9% and 4.1%, respectively, of the Group's TL 536,903,774 thousand in average interest-bearing liabilities during 2022.

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 1,400,779,398 thousand as of 30 June 2023, a 54.15% increase from TL 908,739,459 thousand as of 31 December 2022, itself a 55.9% increase from TL 582,833,426 thousand as of 31 December 2021, which itself was a 62.76% increase from TL 358,100,348 thousand as of 31 December 2020. Foreign currency deposits (principally U.S. dollars and euro) represented 60.3%, 69.4%, 53.2% and 45.6% of the Group's total deposits as of 31 December 2020, 2021 and 2022 and 30 June 2023, 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 53,670,871 thousand as of 30 June 2023 (2.8% of the Group's total liabilities), TL 45,856,723 thousand as of 31 December 2022 (3.5% of the Group's total liabilities), TL 43,626,729 thousand as of 31 December 2021 (5.1% of the Group's total liabilities) and TL 26,620,183 thousand as of 31 December 2020 (4.9% 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 June 2023, 14.7% of funds borrowed were "short term" (*i.e.*, having a remaining term-to-maturity of one year or less) as compared to 20.7%, 13.0% and 9.0%, respectively, as of 31 December 2020, 2021 and 2022). 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 10,063,855 thousand as of 30 June 2023, constituting 0.5% of the Group's total liabilities, decreasing its share of the Group's total liabilities as compared to TL 17,608,189 thousand as of 31 December 2022 (1.4% of the Group's total liabilities), TL 25,644,871 thousand as of 31 December 2021 (3.0% of the Group's total liabilities) and TL 22,817,081 thousand as of 31 December 2020 (4.2% of the Group's total liabilities). In 2021, 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. In 2022 and the first six months of 2023, the Bank adopted the same strategy backed by high levels of liquidity; utilising bilateral loans and rolling over syndicated loans in 2022, which continued in the first six months of 2023 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 June 2023 amounted to TL 188,531,873 thousand, an increase of 23.1% from TL 153,124,120 thousand as of 31 December 2022, which was an increase of 90.7% from TL 80,300,855 thousand as of 31 December 2021, which itself was a 28.7% increase from TL 62,409,195 thousand as of 31 December 2020. 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 June 2023 |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | |
| | | (*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 | 1,712,571 | 1,852,255 | 4,561,421 | 11,896,096 |
| Other comprehensive income/expense items to be recycled to profit or loss | 2,980,346 | 7,191,703 | 19,914,049 | 22,881,876 |
| Profit reserves | 46,078,019 | 51,937,355 | 63,782,784 | 114,573,817 |
| Profit/(loss) | 7,048,934 | 14,015,592 | 59,396,697 | 33,584,124 |
| Minority interest | 247,679 | 319,516 | 484,735 | 611,526 |
| **Total shareholders' equity** | **62,843,707** | **80,300,855** | **153,124,120** | **188,531,873** |

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. 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. With respect to 2021 and 2022 net income, the BRSA limits for distributions were 10% and 15%, respectively, of a bank's distribution net income, which maximum amounts the Bank elected to distribute. 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 30 June 2023 |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | |
| | | (*TL thousands)* | | |
| Letters of guarantee | 65,332,869 | 104,364,646 | 187,090,406 | 272,479,131 |
| Letters of credit | 13,163,222 | 25,954,648 | 35,059,723 | 43,093,474 |
| Bank acceptances | 2,173,451 | 2,751,737 | 3,918,563 | 5,847,633 |
| Endorsements | - | 1,128,961 | 5,653,771 | 1,497,293 |
| Other guarantees | 125,852 | 258,782 | 646,094 | 10,780,328 |
| **Total guarantees and sureties** | **80,795,394** | **134,458,774** | **232,368,557** | **333,697,859** |

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 2020, 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 447,044,243 thousand as of 30 June 2023, an increase of 79.2% from TL 249,499,657 thousand as of 31 December 2022, itself an increase of 78.1% from TL 140,074,237 thousand as of 31 December 2021, which itself was an increase of 33.6% from TL 104,828,423 thousand as of 31 December 2020. 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 June 2023, the Group's face values of outstanding derivative contracts arising from various derivatives amounted to TL 1,263,788,946 thousand, a 16.9% decrease from TL 1,081,008,221 thousand, itself a 49.1% increase from TL 725,086,638 thousand as of 31 December 2021, which was itself a 52.7% increase from TL 474,690,525 thousand as of 31 December 2020. 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 in the BRSA Interim Financial Statements and, for a breakdown of the Group's commitments arising from derivatives as of 31 December 2020, 2021 and 2022, 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 30 June 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 7 September 2023 are 7.03% and 8.53%, respectively, on a Bank-only basis and 8.66% and 10.16%, 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. Each of S&P, Moody's and Fitch downgraded certain credit ratings of Türkiye, and both Moody's and Fitch downgraded certain ratings of the Bank, in 2020, 2021 and/or 2022 (S&P does not provide a credit rating for the Bank). 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 past downgrades of Türkiye. 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 and common equity Tier 1 capital adequacy ratios decreased from 14.3% as of 31 December 2020 to 13.8% as of 31 December 2021 and then increased to 16.2% as of 31 December 2022 before decreasing to 15.7% as of 30 June 2023 (15.8%, 15.4%, 18.1% and 17.4%, respectively, with respect to the Bank). The Group's total capital adequacy ratio decreased from 16.9% as of 31 December 2020 to 16.7% as of 31 December 2021 and then increased to 18.6% as of 31 December 2022 before declining to 17.9% as of 30 June 2023 (18.5%, 18.5%, 20.6% and 19.6%, respectively, with respect to the Bank). On 31 January 2023, the BRSA announced that capital adequacy ratio calculations until such date as determined by the BRSA may be calculated using the Central Bank's foreign exchange buying rates as of 30 December 2022 (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 2022 and 30 June 2023 would decline to 16.8% and 15.8%, respectively (18.9% and 17.7%, respectively, with respect to the Bank).

The following table sets out information on the Group's capital and its capital adequacy ratios as of the indicated dates:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 |
| | (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 | 45,869,743 | 51,937,355 | 63,782,784 | 114,573,817 |
| Profit | 6,513,366 | 14,015,592 | 59,396,697 | 33,584,124 |
| Tier 1 Capital (I) | 61,854,002 | 80,688,398 | 152,025,140 | 186,339,102 |
| Tier 2 Capital (II) | 11,161,116 | 17,014,510 | 22,370,738 | 25,742,500 |
| Deductions (III) | 1,884 | 2,984 | 82 | 2,643 |
| Own Funds (I+II-III) | 73,013,234 | 97,699,924 | 174,395,796 | 212,078,959 |
| Risk Weighted Assets (including market and operational risk) | 432,914,519 | 585,131,580 | 937,541,310 | 1,186,377,688 |
| ***Capital Ratios:*** | | | | |
| Tier 1 capital adequacy ratio | 14.3% | 13.8% | 16.2% | 15.7% |
| Common equity Tier 1 capital adequacy ratio | 14.3% | 13.8% | 16.2% | 15.7% |
| Total capital adequacy ratio[(1)] | 16.9% | 16.7% | 18.6% | 17.9% |

(1) On 17 June 2021 (as revised multiple times thereafter), the BRSA announced that capital adequacy ratio calculations until such date as determined by the BRSA may be calculated using a favourable foreign exchange rate. 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 11.45%, 11.45%, and 14.12%, respectively, as of 31 December 2021, 14.50%, 14.50%, and 16.78%, respectively, as of 31 December 2022 and 13.75%, 13.75%, and 15.81%, respectively, as of 30 June 2023.

The significant increases in the Group's capital in 2021 and 2022 represented the growth in the Group's retained earnings despite the significant depreciation of the Turkish Lira. In the first six months of 2023, 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.

Please see: (a) "Risk Factors - Risks Relating to Türkiye - Economic Conditions - Turkish Economy" with respect to the negative impact on the capital ratios resulting from the depreciation of the Turkish Lira and positive (but likely temporary) impacts of certain regulatory accommodations provided by the BRSA and (b) "Risk Factors - Risks Relating to Türkiye - Economic Conditions - Inflation" with respect to the potential distorting impact of high inflation, including the use of non-inflation-adjusted figures in the BRSA Financial Statements.

**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. As of 7 September 2023, 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 2020, 2021 and 2022 and 30 June 2023, the Group's loan-to-deposit ratio was 96.2%, 84.3%, 84.7% and 72.6%, respectively. The change in 2021resulted from relatively moderate loan growth whereas the change in 2022 was due to the growth in deposits exceeding the growth in loans and the impact of the depreciation of the Turkish Lira. 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 has issued various Series of Notes under the Programme, including some small and/or short-term private transactions. 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, 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. 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 second quarter of 2023 are shown below:

| | **Turkish Lira + Foreign Currency** | **Foreign Currency** |
|---|---|---|
| 31 October 2020 | 173.00% | 223.90% |
| 30 November 2020 | 173.08% | 300.94% |
| 31 December 2020 | 176.92% | 363.75% |
| 31 October 2021 | 184.33% | 405.98% |
| 30 November 2021 | 188.17% | 393.65% |
| 31 December 2021 | 218.64% | 419.98% |
| 31 October 2022 | 218.36% | 556.61% |
| 30 November 2022 | 212.16% | 511.81% |
| 31 December 2022 | 216.28% | 499.90% |
| 31 April 2023 | 214.80% | 378.36% |
| 31 May 2023 | 183.76% | 248.25% |
| 30 June 2023 | 207.97% | 276.57% |

The following table sets out the calculation of the Group's period-end liquidity ratios during 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:

| | 2020 | | 2021 | | 2022 | |
|---|---|---|---|---|---|---|
| | **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 | 126,032,909 | 70,040,350 | 184,253,304 | 103,593,389 | 361,051,673 | 205,102,320 |
| **Cash Outflows** | | | | | | |
| Retail deposits and deposits from small business customers, of which | 24,046,422 | 16,165,448 | 33,153,012 | 22,705,041 | 54,756,102 | 33,116,976 |
| *Stable deposits* | *2,061,124* | *61,577* | *2,499,897* | *84,340* | *4,034,434* | *114,473* |
| *Less stable deposits* | *21,985,298* | *16,103,871* | *30,653,115* | *22,620,701* | *50,721,668* | *33,002,503* |
| Unsecured wholesale funding, of which | 52,434,274 | 28,699,864 | 78,673,136 | 46,207,148 | 134,854,792 | 76,050,569 |
| *Non-operational deposits* | *36,990,764* | *22,256,103* | *57,509,897* | *38,907,943* | *97,918,142* | *63,189,598* |
| *Unsecured funding* | *15,443,510* | *6,443,761* | *21,163,239* | *7,299,205* | *36,936,650* | *12,860,971* |
| *Secured wholesale funding* | *538,803* | - | *565,670* | - | *500,933* | - |
| Other cash outflows, of which | 24,239,896 | 20,394,324 | 36,849,978 | 29,838,735 | 56,339,836 | 45,286,616 |
| *Outflows related to derivative exposures and other collateral requirements* | *11,786,346* | *14,967,811* | *17,974,608* | *21,166,493* | *18,052,938* | *29,861,010* |
| *Payment commitments and other off-balance sheet commitments granted for debts to financial markets* | *12,453,550* | *5,426,513* | *18,875,370* | *8,672,242* | *38,286,898* | *15,425,606* |
| Other revocable off-balance sheet commitments and contractual obligations | 64,532 | 30,329 | 296,244 | 258,920 | 535,007 | 451,385 |
| Other irrevocable or conditionally revocable off-balance sheet obligations | 711,683 | 690,137 | 1,219,178 | 1,207,821 | 1,681,002 | 1,601,198 |
| **Total Cash Outflows** | **102,035,610** | **65,980,102** | **150,757,218** | **100,217,665** | **248,667,672** | **156,506,744** |
| **Cash Inflows** | | | | | | |
| Secured receivables | - | - | - | - | - | - |
| Unsecured receivables | 28,374,505 | 16,816,359 | 50,641,491 | 32,616,478 | 79,044,232 | 41,249,546 |
| Other cash inflows | 1,275,375 | 25,084,909 | 6,693,228 | 56,840,117 | 1,871,426 | 99,332,105 |
| **Total Cash Inflows** | **29,649,880** | **41,901,268** | **57,334,719** | **89,456,595** | **80,915,658** | **140,581,651** |
| **Total High-Quality Liquid Assets (HQLA)** | **126,032,909** | **70,040,350** | **184,253,304** | **103,593,389** | **361,051,673** | **205,102,320** |
| **Total Net Cash Outflows** | **72,385,730** | **24,078,834** | **93,422,499** | **25,054,416** | **167,752,014** | **39,126,686** |
| **Liquidity Coverage Ratio** | **174.33%** | **296.20%** | **197.05%** | **406.54%** | **215.60%** | **522.77%** |

The following table sets out similar information for the six months ended 30 June 2023:

| | Six months ended 30 June 2023 | |
|---|---|---|
| | TL + FC | Foreign Currency |
| | *(TL thousands, except percentages)* | |
| ***High-Quality Liquid Assets*** | | |
| Total high-quality liquid assets | 425,100,560 | 247,988,222 |
| **Cash Outflows** | | |
| Retail deposits and deposits from small business customers, of which | 69,569,655 | 35,707,500 |
| *Stable deposits* | *6,338,854* | *125,513* |
| *Less stable deposits* | *63,230,801* | *35,581,987* |
| Unsecured wholesale funding, of which | 175,258,755 | 83,866,779 |
| Non-operational deposits | 124,566,537 | 69,186,179 |
| Unsecured funding | 50,692,218 | 14,680,600 |
| Secured wholesale funding | 775,101 | 0 |
| Other cash outflows, of which | 65,786,942 | 33,580,701 |
| *Outflows related to derivative exposures and other collateral requirements* | *12,503,856* | *16,287,951* |
| *Payment commitments and other off-balance sheet commitments granted for debts to financial markets* | *53,283,086* | *17,292,750* |
| Other revocable off-balance sheet commitments and contractual obligations | 736,089 | 554,061 |
| Other irrevocable or conditionally revocable off-balance sheet obligations | 1,953,748 | 1,864,458 |
| **Total Cash Outflows** | **314,080,290** | **155,573,499** |
| **Cash Inflows** | | |
| Secured receivables | | |
| Unsecured receivables | 100,615,976 | 44,148,541 |
| Other cash inflows | 1,936,790 | 21,891,457 |
| **Total Cash Inflows** | **102,552,766** | **66,039,998** |
| **Total High-Quality Liquid Assets (HQLA)** | **425,100,560** | **247,988,222** |
| **Total Net Cash Outflows** | **211,527,524** | **89,533,501** |
| **Liquidity Coverage Ratio** | **202.18%** | **301.06%** |

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 Central Bank started to pay interest for U.S. dollar (but not other foreign currency) reserve accounts as of 5 May 2015; *however*, through 7 September 2023, interest has not been paid on U.S. dollar reserve deposits since September 2019.

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 in 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 the indicated periods:

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| | | *(TL thousands)* | |
| Real estate | 37,470 | 9,289 | 831,024 |
| Leased tangible assets | - | - | - |
| Right-of-use assets | 555,822 | 368,843 | 897,021 |
| Vehicles | 9,187 | 5,499 | 8,675 |
| Other tangible assets | 783,787 | 672,665 | 1,057,596 |
| Intangible assets | 337,596 | 471,661 | 697,805 |
| **Total capital expenditures** | **1,723,862** | **1,527,957** | **3,582,121** |