Risk Committee's Assessment

of Risk Management Policies, Their Implementation and Management of Various Risks That the Bank May Be Exposed to

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2021 has been a year in which the global economic activity remained robust despite the constraining effects of COVID-19 pandemic. Starting from second half, with the spread of vaccination and the easing of pandemic restrictions, recovery in the related sectors which were adversely affected by the pandemic were facilitated and domestic demand has improved. This led to an increase in loan demand as well. Along with the recovery in economic activity, demand and cost factors, supply constraints in some industries, increase in international commodity prices and exchange rate developments had an impact on inflation. Under these circumstances the Bank also continued to pay utmost attention to preserve its prudent, transparent and forward looking approach in the risk management activities. In addition, the necessary measures and actions have continued to be taken within the scope of the current Occupational Health and Safety and Business Continuity practices across the Bank, and new risks arising from this situation have been managed in the most effective way.

The impact on the Bank's capital adequacy and liquidity, and asset quality were closely analyzed and risk metrics were closely monitored via regular reporting, as well as instant monitoring and stress tests. As the need for provisioning decreased in 2021 compared to the previous year, the Cost of Risk ratio decreased, and the Bank maintained its profitability while continued to allocate free provisions for potential risks. As a result of the strong growth in collections, debt sales and write-down of non-performing loans and the growth in loan portfolio, the Bank-only non-performing loan ratio, which was 4.6% at the end of 2020, stood at 3.78% at the end of 2021. In the period ahead, with the policies and tools that enable decision-making, the Bank targets to manage nonperforming loans portfolio by focusing on efficient recovery strategies and also evaluating the options for write-down and sale of non-performing loans. With respect to liquidity, evolution of the risks have been more closely monitored and effectively managed via daily monitoring reports and Early Warning Indicators.

Within 2021, Bank's risk management activities were continued to be carried out with the target of maintaining a moderate risk profile, a robust financial position and a sound risk adjusted profitability throughout-the-cycle, as the optimal way to face adverse situations without jeopardizing the strategies. Within the framework of the risk appetite and risk based polices approved by the Risk Committee and the Board of Directors, in 2021, the Risk Management continued to improve its measurement, reporting and management tools, where risks were measured via advanced methods, reported to relevant committees and senior management in order to determine strategies and take decisions, considering compliance with local and international standards and practices. Projects have been undertaken for this purpose towards more automated and advanced processes and enhanced data quality. With the coordination of the Risk Management, reports including the results of Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), which were integrated with risk appetite, stress tests and budget processes, were approved by Risk Committee and the Board of Directors. Based on their scope, the affiliates were reviewed by the Risk Committee in order to ensure a consistent risk culture throughout the organization.

The Risk Committee held 11 meetings in 2021 in order to assist the Board of Directors.