Risk Committee's Assessment

OF RISK MANAGEMENT POLICIES, THEIR IMPLEMENTATION AND MANAGEMENT OF VARIOUS RISKS THAT THE BANK MAY BE EXPOSED TO

2022 has been a year in which the global economy slowed considerably due to the effects of Russia/Ukraine war and tightening steps of advanced economy central banks in response to high inflation. Turkey started the year facing the effects of the FX shock of Q42021 which, along with the effect of the war on food and energy prices, resulted in a rapid surge in inflation from about 20% in September 2021 to a peak of 85.5% in October 2022. Despite high and rising inflation, economic growth was robust at around 5% supported by private consumption and net exports. The adverse effects of the war on the current account balance and the inflation were addressed by a series of banking sector regulations related to selective loan policies and liraisation measures. As a response to these, loan growth slowed notably in the third quarter and the share of Turkish Lira deposits has increased. Along with continued FX inflows through errors and omissions and other investments, these measures and Central Bank of Turkey's reserve management policies helped stabilize TL. Under this economic environment, the Bank continued to pay utmost attention to preserve its prudent, transparent and forward looking approach in the risk management activities.

In 2022, the Bank continued to proactively manage its capital position, which is assessed under different stress scenarios on a regular basis and took into account an integral and forward-looking view of all risks. Consolidated Capital Adequacy Ratio (CAR) which was 14.1%* at the end of 2021, realized as 16.8%* at the end of 2022, with the robust contribution of net income. With respect to liquidity risk, risk management focused on the maintenance of an adequate volume of stable resources and a diversified wholesale funding structure, which limit the weight of short term funding, ensure the access to the different markets, optimize funding costs and preserve a cushion of liquid assets to overcome a liquidity survival period under stress scenarios. Despite the volatility in the market and numerous regulatory changes affecting the Bank's strategy, the liquidity position of the Bank kept its strong stance and proactive management continued.

In 2022, the Bank maintained its healthy asset quality while growing 79% in loans with a focus on TL portfolio. Due to strong growth in the performing loans and collections in 2022, Stage 2 ratio which accounted for 16,8% in 2021 decreased to 13,6% as of 2022 year-end. As a result of the achievements in collections and debt sales and write-down operations that were continued throughout the year, alongside with the strong growth in performing loan portfolio, the consolidated non-performing loan ratio, which was 3.6% at the end of 2021, stood at 2.6% at the end of 2022. In the period ahead, loan portfolio will continue to be managed through the policies and tools which enable effective decision-making, appropriate collateralization process and prudential provisioning. 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.

Within 2022, 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. The maintenance of a moderate risk profile allowed to limit losses even under stress situations, which contributed to giving stability to income and promoting profitable growth and recurrent value creation. As a consequence of this approach, consolidated Return on Equity (ROE) reached out to 51.0% at the end of 2022, whereas it was at 19.7% at the end of 2021.

Within the framework of the risk appetite and risk based polices approved by the Risk Committee and the Board of Directors, in 2022, 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 2022 in order to assist the Board of Directors.

* Excluding BRSA's forbearance measures.