

Risk Committee's Assessment

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

2020 has been a challenging year globally in which the COVID-19 epidemic has entered into lives with effects that will leave its mark, to a degree that could hardly be predicted by any stress test, where all participants of the society had to adopt new ways of living and working. Under these challenging circumstances, where economic activity weakened, all the players in the economy took responsibility in supporting the society financially and regulation amendments took place within the scope of the measures taken considering the effects of the epidemic. While the Bank continued to stand by and support its customers in this process, it 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 been 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 effects of the epidemic on the markets and on Bank's risk profile, especially on its liquidity, solvency, asset quality and profitability, were analyzed in detail, the frequency of monitoring activities has been increased and integrated into risk management. The Bank closely monitored its risk metrics within the risk appetite framework and via stress tests. With COVID-19, coverage ratios have been further strengthened in all stages, thanks to prudent provisioning policies, and despite the increase in Cost of Risk, Bank maintained its profitability while continuing to allocate free provisions for possible risks. Bank-only non-performing loans ratio which was 6.9% in YE19, improved as a result of the impact of epidemic related regulation amendments and utilization of write-off processes and realized as 4.6% in YE20. 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. With respect to liquidity, since the beginning of the epidemic, evolution of the risks have been more

closely monitored and effectively managed via daily monitoring reports and Early Warning Indicators where monitoring frequency has been increased to daily. Within 2020, Bank's risk management activities were 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 2020, the Risk Management further improved 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. With the coordination of the Risk Management, Risk Committee and the Board of Directors approved 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. Throughout the year, Risk Management continued to work on projects in order to further promote the effectiveness of risk management activities via automated and advanced processes and to enhance data quality. Based on their scope, the affiliates were reviewed by the Risk Committee in order to ensure a risk culture throughout the organization that guarantees the coherence of the risk management at all levels of the organization. Consequently, the Risk Committee held 11 meetings in 2020 in order to assist the Board of Directors in overseeing the Bank's enterprise risk management policies and practices, including the alignment with its strategic objectives and management's ability to assess and manage the various risks present in its activities, as well as capital adequacy, planning and liquidity adequacy.