

ASSESSMENT OF FINANCIAL POSITION AND RISK MANAGEMENT

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**WE CARRY OUR
ENVIRONMENTAL FOCUS TO
FUTURE WITH AN INNOVATIVE
APPROACH**

THE AUDIT COMMITTEE'S ASSESSMENT OF INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS AND ACTIVITIES DURING THE REPORTING PERIOD

The organization set up for the operation of internal control, internal audit and risk management systems at TEB was structured in accordance with the provisions of the "Regulation on Banks' Internal Systems and Internal Capital Adequacy Evaluation" published in the Official Gazette dated 11 July 2014.

The mentioned structure is aligned with the scope and nature of the Bank's operations and possesses the quality and efficiency to respond to changing conditions.

Risk Management, Compliance and Internal Control and the Internal Audit Group report to the Board of Directors; independent of one another, these units worked in coordination and successfully completed their activities in 2021.

The Board of Directors has taken necessary action to approve important strategies and policies regarding control activities and to maintain an efficient internal audit system and risk management system.

The Audit System created encompasses all operations and units of the Bank and its subsidiaries. As of year-end, the Internal Audit Group was formed of 1 Group Head, 4 Assistant Group Heads, 7 Audit Managers, 2 Supervisor Auditors, 5 Senior Auditors, 3 Senior IT Auditors, 20 Auditors, 9 Authorized Assistant Auditors, 3 Authorized IT Assistant Auditors, 17 Assistant Auditors, 1 IT Assistant Auditor, 1 Data Analysis Assistant Manager, 1 Internal Audit Group Support and Coordination Assistant Manager and 1 Executive Assistant.

The Board of Directors has taken all necessary action to make sure that the Internal Audit Group is able to audit all operations and units of the Bank and its consolidated subsidiaries without any restrictions.

In 2021 audits, 132 branches in total were audited within the scope of solo branch, 5 field processes and related head office audits.

In addition to branch audits, inspections were conducted in a total of 38 different areas: 24 at the Head Office, 9 at subsidiaries, 5 in IT. Besides these audits, Management Assessment was carried out, which covered banking and information technology processes.

The Compliance and Internal Control Group covers the Internal Control Division, Legislation Division, Compliance Division and IT Control Division, Subsidiaries Coordination Division and TRNC Compliance Division.

Internal control activities are arranged so as to cover basic control areas. According to the internal control organization, the Branches Control Department, Head Office Control Department, Finance and Treasury Transactions Control Department, Control Design and Support Department and IT and Support Department conduct the controls at branches and head office departments, respectively.

In accordance with Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks and MASAK regulations, regulatory and compliance functions are being conducted by Regulation and Compliance units under Compliance and Internal Control Group.

The activities of the Legislation Division are carried out in accordance with the requirements of applicable legislation and the Group's guidelines.

The aim of Risk Management system is to define, measure and monitor the Bank's risk exposure stemming from its operations and to make sure that these risks are controlled through the policies, guidelines and limits established.

Risk Management functions of the Bank and all subsidiaries are gathered under the Group Risk Management. Group Risk Management reports to TEB Group Boards of Directors via the Risk Committee and the Audit Committee at TEB A.Ş. and is responsible for carrying out the general monitoring, warning and recommendation functions on behalf of the Boards of Directors in line with the principles stipulated in this regulation.

In accordance with the Board of Directors resolution 184 dated 20 December 2019, Group Risk Management will be required to not only report to Audit Committee but also to Risk Committee as well.

The Bank's Group Risk Management is organized in three divisions:

- Credit Risk Management,
- Rating Models Development,
- Market Risk and Operational Risk Departments and Environmental and Social Credit Policies Department and Group Risk Analysis Department

At the Bank's Board of Directors meeting held on 8 November 2005, a decision was passed to set up an Audit Committee responsible for the entire TEB Group companies in view of the provisions of Article 24 of the Banking Law no. 5411 and it was decided that the said committee should assume the powers of the members of the Senior Risk Committee set up at the Bank under Law no. 4389.

During 2021, the Audit Committee met 59 times. The Committee works committedly to monitor the risks on a consolidated basis across the entire Group, to create control points, to review documented procedures on the basis of activities, to provide the coordination among the Internal Audit Group, Risk Management, Compliance and Internal Control groups, to set up the internal control system of the same scope between the Bank and Group companies and to fulfil other liabilities in accordance with the Banking Regulation.

The Bank closely monitors and implements international best practices, as well as the new regulatory requirements regarding internal audit and risk management systems.

