

Risk Management

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Garanti BBVA measures and monitors its risk exposure on consolidated and unconsolidated bases by using methods compliant with international standards, and in accordance with the applicable legislation. Advanced risk management tools are utilized in measuring operational risk, market risk, structural interest rate risk, exchange rate risk, liquidity risk, counterparty credit risk and credit risk.

The Bank's risk management strategy, policies and implementation procedures, and the tools and models employed for risk management are reviewed within the framework of regulatory changes and the Bank's needs.

Through the risk appetite framework created, the Bank determines the risks that it is prepared to take based on the predicted capability of safe handling of risks so as to achieve the goals and strategic objectives as defined by the Board of Directors. Risk-based limits are monitored regularly using risk appetite metrics pertaining to capital, liquidity, and profitability.

Risk Management handles the preparation of the ICAAP (Banks' Internal Systems and Internal Capital Adequacy Assessment Process) report by coordinating the related parties, which will be submitted to the BRSA. In addition, the stress test report is submitted to the BRSA, which addresses how the Bank's three-year budget plan and results might alter within the framework of predetermined macroeconomic scenarios, as well as their impact upon key ratios including the capital adequacy ratio.

IDENTIFIED RISKS AND OUR RESPONSE

Reputational Risk

The Bank defines the risks and risk factors in dimensions such as customer-centeredness, workplace, ethics and citizenship, finances, and leadership, as well as a map in which it prioritizes the Reputational Risks it faces, together with a set of action plans to mitigate these risks. The risks are then governed through the relevant committees. Reputational Risk is managed according to the relevant policy approved by the Board of Directors.

Environmental And Social Risk

Environmental and Social Risks associated with financing activities that could result in adverse impacts on the environment and society are governed through methods and procedures that transcend international practices and in a way that covers the entire credit portfolio.

Operational Risk

Operational Risk covers processes, internal and external fraud, technology, human resources, business practices, disasters, and suppliers, and is managed on the basis of the three lines of defense approach within the framework of risk management policies approved by the Board of Directors.

Market Risk

Market Risk is managed by measuring and limiting risk in accordance with international standards, allocating sufficient capital and minimizing risk through hedging transactions within the framework of the policy approved by the Board of Directors.

Structural Interest Rate Risk

Within the scope of the policy approved by the Board of Directors, to determine and manage the Bank's exposure to Structural Interest Rate Risk arising from potential maturity mismatches in its balance sheet, duration gap, economic value of equity (EVE), economic capital (ECAP), credit spread risk sensitivity, net interest income (NII), earnings at risk (EaR) are monitored by measuring market price sensitivity of securities portfolios followed up in the banking book.

Structural Exchange Rate Risk

The potential impact of negative exchange rate fluctuations upon the capital adequacy ratio and FC risk-weighted assets are regularly followed up, monitored according to internal limits, and reported within the scope of Structural Exchange Rate Risk within the framework of the policy approved by the Board of Directors, in the case that the Bank performs material operations in currencies other than the local currency in its balance sheet or maintains positions for shareholders' equity hedging purposes.

Liquidity Risk

Liquidity Risk is managed within the framework of liquidity and funding risk policies approved by the Board of Directors under the supervision of ALCO and the Weekly Review Committee in order to take appropriate and timely measures in case of liquidity squeeze arising from market conditions or the Bank's financial structure.

Credit Risk

Credit Risk management is carried out within the framework of the policies approved by the Board of Directors and covers all credit portfolios. Outputs from scorecard models and internal risk rating models, which were developed using statistical methods based on historical data, are incorporated into relevant lending policies and procedures. Risk-adjusted return systems and limits are actively used as risk management tools. Stress tests and scenario analyses are employed to evaluate solvency. Measurement methods are developed for credit concentration risk and capital requirement is calculated.

Counterparty Credit Risk

Measurement, monitoring and limit creation activities for Counterparty Credit Risk are managed in accordance with the policy, which is approved by the Board of Directors and encompasses strategy, policy, and procedures.

Country Risk


Under the Country Risk policy approved by the Bank's Board of Directors, methods compliant with international norms and local regulations are employed to evaluate and monitor developments in country risk on the basis of individual countries, and related reporting, control and audit systems are established as necessary.

Concentration Risk

The Bank defines and monitors Concentration Risks on the basis of different types of risks or individual risks, which might result in material losses that would endanger the ability to sustain fundamental activities or the financial structure or lead to a significant change in the risk profile, within the framework of the policy approved by the Board of Directors.

Risk Management in Affiliates

The Bank coordinates the related risk management units/functions to determine the needs for risk management of consolidated affiliates and to ensure that required studies and reports are managed.

 [Detailed information about the risks identified by Garanti BBVA is accessible on the website by clicking the relevant link.](#)

MONITORING OF IMPORTANT DEVELOPMENTS WITH RESPECT TO RISK MANAGEMENT

In 2021, regulatory changes, macroeconomic environment, their impact with respect to the Bank's risk management framework and the Bank's compliance with regulatory indicators were monitored closely at the Risk Committee level and within the Bank's risk appetite as part of risk management activities. In the process, Risk Committee members and Audit Committee members were promptly informed of regulatory changes and their implications, in addition to regular committee reporting. No regulatory limits were breached in terms of risk management framework monitoring.

As part of risk management, operational risk incidents were followed up, root cause analyses were performed, and necessary actions were taken to avert recurrence.

Furthermore, development of liquidity and structural risks were watched more closely on a daily basis using Early Warning Indicators, monitoring reports and detailed analyses conducted, thus, ensuring proactive and effective management of risks.

Steps were taken to increase automated risk reporting in view of the diversity of risk reporting and constantly growing needs.

Strategic Priorities

Main Risk Areas

FINANCIAL
HEALTH

- Financial advisory to our customers to help them make the right/healthy financial decisions
- Offer our customers solutions and suggestions that cater to their needs so as to help them attain their goals
- Deliver an excellent customer experience by placing the customers at the center of all our activities
- Build long-lasting relationships with customers and be their trusted partner

SUSTAINABILITY

- Positively influence customers, decision-makers and the sector being the leading bank in sustainability; continue to support raising increased awareness of this matter
- Increase the diversity and use of our sustainable products offered to customers
- Observe climate change-related risks and opportunities; integrate them into our business processes and risk policies
- Focus on community investment programs which deliver impactful outcomes on material topics and observe impact investment principles

REACHING MORE
CUSTOMERS

- Expand our customer base and deepen our customers' relations with our Bank
- Be wherever our customers are; make effective use of new channels including digital customer acquisition and partnerships
- Grow in areas of focus while monitoring risk and cost

OPERATIONAL
EXCELLENCE

- Constantly build on our business model in various ways including process automation, transaction convenience and enriched remote services, etc.
- Increase end-to-end digital solutions, continue to improve experience through investments in our digital platforms
- Use capital effectively and maximize our value creation while focusing on sustainable growth
- Constantly improve our business model and processes with operational efficiency point of view while pursuing cost and revenue synergies
- Effectively manage financial and non-financial risks

DATA AND
TECHNOLOGY

- Increase the agility and strength of our technological infrastructure and platforms
- Speed up our solution processes through artificial intelligence, machine learning and big data interpretation, which is important in the day-to-day operations of the Bank
- Effectively use data analytics in various areas such as offering the right product to our customers, pricing, risk management, etc.

THE BEST AND MOST
ENGAGED TEAM

- Invest in our human capital with a focus on their development, happiness and well-being in order to ensure work-life balance
- Form teams nurturing our values, possessing team spirit, acting with shared wisdom, thinking big, are socially responsible and result-oriented
- Adopt a fair and transparent management policy based on performance, focused on equal opportunities, diversity and internal promotion

REPUTATIONAL RISK

ENVIRONMENTAL AND
SOCIAL RISK

OPERATIONAL RISK

COUNTRY RISK

MARKET RISK

STRUCTURAL INTEREST
RATE RISKSTRUCTURAL
EXCHANGE RATE RISK

LIQUIDITY RISK

CREDIT RISK

COUNTERPARTY
CREDIT RISK

CONCENTRATION RISK

RISK MANAGEMENT IN
AFFILIATES

 Detailed information on Internal Systems Managers and Anti-Fraud, Information Security and Risk Management, Data and Business Analytics Managers can be found in the Download Center page on the report web site.

 Mega trends and Garanti BBVA's response to relevant risks and opportunities are addressed in the Opportunities and Risks section.