RISK MANAGEMENT REVIEW

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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 are reviewed within the framework of regulatory changes and the Bank's needs.

The risk management process is organized in such a way that the material issues and strategic goals are linked and are the basis for the risks and opportunities identified.

Through the risk appetite framework, 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, which have been established as per the risk appetite framework.

Risk Management handles the preparation of the ICAAP 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 potential negative effects on macroeconomic data might alter the Bank's three-year budget plan and results within the framework of certain scenarios, as well as their impact upon key ratios including the capital adequacy ratio.

Within the risks managed, 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 within the Bank's extensive committee structure. Reputational Risk is managed according to the relevant policy approved by the Board of Directors.

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 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 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.

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.

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 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 management, which is a process for consistently evaluating and monitoring credit risk, is carried out within the framework of the policy approved by the Board of Directors, and covers all credit portfolios. In order to rate customers using objective criteria, outputs from scorecard models and internal risk rating models, which were developed using statistical methods on historical data, are incorporated into relevant lending policies and procedures.

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.

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.

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. Risks for Affiliates subject to consolidation are managed in coordination with risk management units/functions in affiliates in accordance with the scale appropriate for the structure, complexity level, size and risks of the relevant affiliate.

MATERIAL CLUSTERS	VALUE DRIVERS
CUSTOMER EXPERIENCE	→ Offer our customers an excellent experience by placing them at the center of all our activities and efforts → Always be transparent, clear and responsible towards our customers → Design our processes from our customers' perspective, vesting them in a swift, easy and plain format → Help our customers in making informed decisions through supporting financial literacy, health and inclusion in solutions that we offer → Have long-lived relationships with our customers that are built on trust by exceeding their expectations and enhancing their satisfaction → Offer innovative solutions and advise our customers to grow their businesses in a sustainable manner
FINANCIAL PERFORMANCE	→ Use capital effectively so as to maximize the value to be created → Focus on disciplined and sustainable growth on the basis of true banking principle → Strict adherence to solid asset quality → Constantly improve business model and processes with operational and environmental efficiency point of view → Cost and revenue synergies
DIGITAL TRANSFORMATION	→ Constantly invest in digital platforms so as to provide unrivaled customer experience, transaction convenience, and pioneering solution suggestions → Expand our digital customer base and increase the share of digital channels in our sales → Take precautions against all risks which could prevent secure and uninterrupted service (e.g. cyber threats) ensuring information security
INVESTING IN HUMAN CAPITAL	→ Invest in our employees focusing on their development, satisfaction and well-being → Form teams possessing team spirit, acting with shared wisdom, social responsibility and delivering results → Embrace a fair and transparent management policy based on performance, focused on equal opportunities, diversity and promoting from within
RESPONSIBLE AND SUSTAINABLE DEVELOPMENT	→ Implement an advanced corporate governance model that promotes our core values → Act with the principles of trust, integrity, accountability and transparency to all stakeholders → Effective risk management through world-class integrated management of financial and non-financial risks → Create shared value through lending based on impact investment principles → Drive positive change through strategic partnerships → Focus on community investment programs which deliver impactful outcomes on material clusters

MAIN RISK AREAS

- REPUTATIONAL RISK
- ENVIRONMENTAL AND SOCIAL RISK
- OPERATIONAL RISK
- COUNTRY RISK
- MARKET RISK
- STRUCTURAL INTEREST RATE RISK
- STRUCTURAL EXCHANGE RATE RISK
- LIQUIDITY RISK
- CREDIT RISK
- COUNTERPARTY CREDIT RISK
- CONCENTRATION RISK
- RELATED PARTY RISKS