

Application Relating To Credit Risk and Credit Risk Management In Turkish Banking System: The Case Of Turkey Garanti Bank

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Extensive Summary

Within the globalization process of the world, at the competitive area arised as a result of the rapid increase in the number of banks and their branches in developing countries, the vigorously existance of banks depend on the management of the risks faced successfully. Banks must establish their credit strategies onto a good risk management. Indeed, it is the inevitable fact that the success of financial institutions depends on having a powerful risk management system.

In this study, by using the banking ratios, it is aimed to investigate the credit-risk changes of Turkish Garanti Bank (S.C.) by three-month periods of 2007–2012 and give information about the risk management of Turkish Garanti Bank (S.C.).

With this aim, by investigating the financial tables of Turkish Garanti Bank (S.C.), financial data gathered. The information about the risk management of the mentioned bank are collected by the investigation of the web site of the bank, moreover taking the specialist thoughts about the subject at the mentioned bank.

After gathering of the data, by using the banking ratios, the credit-risk changes of Turkish Garanti Bank (S.C.) is investigated. Totally nine banking ratio is used, and the ratios are classified into two titles.

The reached results by this study can be summarized as follows:

When we look at the proportion of bad receivables in assets of Turkish Garanti Bank (S.C.) between the years 2007–2012, it can be seen the highest risk belongs to September 2008 and December 2009, and small descent and ascents can be monitored

in other periods. The reason of the high risk levels of September 2008 and December 2009 is the increase in the credits that given to the Bank's Affiliate, Subsidiaries and together controlled participations.

When the proportion of equivalent expenses of profit and loss statement to amounts of profit and loss statement between the years 2007–2012 is investigated, it can be seen that March 2009 and September 2011 periods are the highest risk periods. The reason of the increasing risk of this periods is, the rise in the IIIrd (Collecting Potential Limited Credits and other Receivables), IVth (Doubtful Credits and other Receivables) and Vth (Loss-Like Credits and Other Receivables) Group Credit and Receivables.

Garanti Bank, started to use inherent risk rating model which developed by using statistical methods out of past data, with the aim of rating the clients by using objective criteria, at the stage of credit assignment, beginning from 2003.

At Garanti Bank, a risk management software is also sited for using in Basel II implementation's placing.

At Garanti Bank, in the subject of removing the credit risks consisted after credit risk occurrence; the risk is tried to be purged by removing the mentioned risks by executive and legal trailing. In liquidation of risk, transfer of quarantees or sales or transfer of risk or sales methods are executing.

As a result, it can be denoted that, at Turkish Garanti Bank (S.C.), the credit is is evaluated and monitored in accordance with international standards and all risk management activities are carried out consistent with Basel II implementations.

Starting with the results mentioned below, it can be said that, credit risk management is rather important in terms of banks fundamental activity and source of income and minimizing the credit risks is possible together with an effective risk management system.

Banks should adopt a management apprehension based on measure and manage credit risk. Banks should carry on their credit risk methods in accordance with their credit policies and procedures, should make lending decisions within the principles and procedures determined by their board of directors. Maturity, amount and properties of the credits should be reported to the board of directors correctly. Internal auditing should be conducted for determining if all the mentioned activities are implementing regularly. Banks should be conscious about recognition, measurement, monitoring and controlling of credit risk.

In conclusion, it is seen that, at Turkish Garanti Bank (S.C.), credit risk is measured and evaluated in accordance with international standards, and all risk management is executing in parallel with Basel II regulations.