Risk Management

The greatest risk is lack of awareness of risk. In this regard, Koç Group operates according to an efficiency-focused management philosophy that is based on maintaining a strong asset quality and capital structure and employs interactive early warning systems.

The goal of risk management is to foresee potential risks from wherever they may arise, to monitor and manage these risks, to prepare risk and crisis management action plans in advance and to achieve the optimal capital allocation between business units based on risk-return assessments. The major risks faced by Koç Holding are divided into three categories: financial risks (credit, exchange rate, interest, liquidity and capital risks), operational risks and legal risks.

Financial Risks:

The general financial risk management program of Koç Group focuses on minimizing any detrimental effects that volatility in the financial markets may have on the financial performance of the Group. The major steps in monitoring financial risks are summarized below:

Credit Risk:
Koç Group manages credit risk by credit assessments, limiting the counterparty risk by setting credit limits for each counterparty and obtaining the highest possible guarantee. The Group minimizes the negative impact of market volatility by using a risk management program (e-risk) that allows daily tracking of the trade receivables risk arising from the Group's operations.

Exchange Rate Risk:
Koç Group manages currency risk exposure by keeping foreign currency position within legal limits and limits approved by the Boards of Directors. Koç Holding reviews these risk limits continuously and sets new limits as necessary, depending on general economic conditions and developments in the market. When required by the exchange rate risk management strategy, derivative transactions are used.

Interest Risk:
In order to manage interest rate risk, Koç Group implements certain precautions such as balancing the repricing dates of interest rate sensitive assets and liabilities and employs certain derivative financial instruments when necessary.

Liquidity Risk:
As part of its liquidity risk management strategy, funding sources are diversified and sufficient levels of cash and cash equivalent assets are kept in hand. Also, to meet any sudden cash need, the total amount of cash and cash equivalent assets are maintained at a preset level vis-à-vis the short term liabilities.

Capital Risk:
Koç Group strives for sustainable operations through maintaining an optimal capital structure that preserves return for its partners, benefits shareholders and minimizes capital costs. To preserve or rearrange the capital structure, dividends to be paid to the shareholders are determined, new shares may be issued and assets may be sold to decrease the debt level.

Operational Risks:

For managing operational risks, all macroeconomic developments and sector-specific risks are monitored by the President of each group. Koç Group's strong presence in the national economy and its customer-oriented management philosophy enables it to monitor market dynamics closely and to develop early warning systems.

Since its foundation, Koç Group placed great emphasis on internal control. In this regard, the Audit Group Presidency has been operating under the Chairman of the Board of Directors since January 1, 2004 in accordance with the principle of separating administration and audit tasks. Audit Group Presidency performs audits of processes, risks, financial and operational tasks and for possible frauds at Koç Group companies. In addition to internal audits to manage operational risks, systems such as the “E-Contractor System”, insurance mechanisms and central purchasing are used to maximize the synergy created by Koç Group.

Legal Risks:

Koç Holding has developed various systems against potential legal risks. Early-warning systems, an on-line database, on-line intellectual property rights management program (mari@a sistem), legal compliance test (HUY) and agreement audit system (LERİMAN), to name a few.