



Report on Capital Adequacy and Risk management

31 December 2009

Table of Contents

- 1. Introduction 3
- 2. Scope of application 3
- 3. Overview on the Risk Governance at GBI 3
- 4. Own funds 4
 - 4.1. Own funds composition 4
 - 4.2. Minimum level of own funds 5
- 5. Credit Risk..... 5
 - 5.1. Organization of the credit function 5
 - 5.2. Information about exposures 7
 - 5.2.1. Exposure amounts before Credit Risk Mitigation 7
 - 5.2.2. Geographical breakdown of the exposures 8
 - 5.2.3. Breakdown of the exposures by industry 9
 - 5.2.4. Effective maturity breakdown10
 - 5.2.5. Impaired and past due exposures, value adjustments and provisions10
 - 5.2.6. Counterparty credit risk of derivative instruments11
 - 5.2.7. Specialized lending12
 - 5.2.8. Credit Risk Mitigation13
 - 5.3. Scope of Acceptance for F-IRB Approach13
 - 5.3.1. Governance Framework around F-IRB Models and Processes14
 - 5.3.2. General Description of Models15
- 6. Market Risk15
- 7. Operational Risk.....16
- 8. ICAAP Framework.....16
 - 8.1. Credit Risk.....17
 - 8.2. Concentration Risk17
 - 8.3. Market Risk18
 - 8.4. Interest Rate Risk on the Banking Book (IRRBB)18
 - 8.5. Liquidity Risk19
 - 8.6. Operational Risk.....20
 - 8.7. Other Risks21
 - 8.8. Capital Planning21

1. Introduction

Related to the implementation of the Capital Requirements Directive (CRD), financial institutions have to fulfil several disclosure requirements. The aim is to make information available to the public relating to solvency aspects and risk profiles of the institution. The requirements are part of the so-called Pillar 3 of the CRD, or Disclosures and Market Discipline and have been included in the Financial Supervision Act (Wet op het financieel toezicht/Wft). These requirements are effective as of 1 January 2008. This document contains Pillar 3 disclosures of GarantiBank International N.V.'s (hereinafter referred to as "GBI" as at 31 december 2009).

2. Scope of application

The scope of application of the requirement of the Disclosures and Market Discipline Directive requirement is confined to GBI including its branches.

3. Overview on the Risk Governance at GBI

The risk management at GBI can be best described as a holistic approach, where all risks are defined and analyzed in coordination with their implications on the business decisions and interactions with other types of risks. Risk management culture at GBI supports value creation by providing insight into the levels of risk that can be absorbed compared with the earnings power and the capital base. Integrated risk management has become a key ingredient in GBI's strategy.

Senior management holds the ultimate responsibility to ensure that the Bank is operating with adequate level of capital in order to sustain the financial stability of the Bank.

Risk Management at GBI is structured as an integrated effort under various levels within the organization. The Supervisory Board and the Chief Executive Officer have overall responsibility for the capital management at GBI. The Supervisory Board Audit and Risk Management Committee is the ultimate authority for the monitoring of risks and capital adequacy at Board level.

The Risk Management Committee (RMC) has the responsibility for coordination of risk management activities within GBI; RMC reports directly to the Audit and Risk Management Committee of the Supervisory Board. Other risk committees are established to manage major banking risks more specifically; the Credit Committee for credit risk, Asset & Liability Committee (ALCO) for market and liquidity risks, Legal Committee for legal risk and Compliance Committee for compliance/integrity risks. Internal Audit Services Department (IAD) is responsible for the monitoring of operational and other risks through FIRM analysis and regular audits and reporting them to the Supervisory Board Audit and Risk Management Committee.

Risk Management Department (RMD) is an independent risk control unit that operates independent from commercial activities and reports directly to RMC. RMD is responsible for the quantification and monitoring of material risks in terms of economic capital and regulatory capital in order to limit the impact of potential events on the financial performance of GBI. Risks are continuously monitored through a well established Internal Capital Adequacy Assessment Process (ICAAP) and reported comprehensively to the related committees. RMD develops and implements risk policies, procedures, methodologies and risk management infrastructures that are consistent with the regulatory

requirements, best market practices and the needs of business lines. RMD also coordinates all efforts for compliance of GBI's risk management policies and practices with Basel principles and the Financial Supervision Act (FSA, Wet op het financieel toezicht / Wft).

ICAAP is appropriately designed to support the Audit and Risk Management Committee of the Supervisory Board and RMC to monitor all types of risks and assess capital requirements with regards to GBI's risk perception and regulatory requirements. RMD presents ICAAP report to the Supervisory Board Audit and Risk Management Committee semi-annually and a summary version of ICAAP to RMC on a quarterly basis.

4. Own funds

4.1. Own funds composition

The own funds of GBI consist of Tier 1 paid-in and called-up capital, profit reserves, Tier 2 revaluation reserves, subordinated debt and IRB provision excess.

The subordinated debt comprises of subordinated retail deposits and subordinated lower Tier 2 notes issued. The subordinated debt is subordinate in respect of the other current and future liabilities of GBI. The original maturity of the retail loans is 5, 6, 8 or 10 years.

The subordinated lower Tier 2 notes issued have an original maturity of 10 years.

In line with article 64, paragraph 3 c) of the directive 2006/48/EG the amount of subordinated debt that is included in the own funds is gradually decreased if its remaining maturity falls within 5 years.

IRB Provision Excess is the total amount of provisions (including dynamic and specific provisions) exceeding the total expected loss amount.

Please find below an overview of GBI's own funds composition as at 31.12.2009:

Own Funds (EUR 1,000)		
	31.12.2009	31.12.2008
Tier 1		
Paid-in and called-up capital	136,836	196,567
Other reserves	138,426	15,796
TOTAL Tier 1	275,262	212,363
Tier 2		
Revaluation reserves	2,484	4,920
IRB provision excess	4,483	-
Subordinated debt	37,712	41,301
<i>Subordinated retail deposits</i>	<i>7,712</i>	<i>11,301</i>
<i>Subordinated lower Tier 2 notes</i>	<i>30,000</i>	<i>30,000</i>
TOTAL Tier 2	44,679	46,221
TOTAL Eligible Capital	319,941	258,584

4.2. Minimum level of own funds

GBI applies Foundation Internal Ratings Based Approach for credit risk, Standardized Measurement Approach for market risk and Basic Indicator Approach for the calculation of the minimum level of own funds.

Solvency as at 31.12.2009 (EUR 1,000)	
Credit Risk	169,860
Market Risk	4,270
Operational Risk	11,623
Total Capital requirement	185,753
Total RWA	2,321,920
Tier 1 Ratio	11.85%
Solvency ratio	13.78%

GBI operates at a comfortable solvency level of 13.78% with a strong Tier 1 ingredient of 11.85%.

5. Credit Risk

5.1. Organization of the credit function

Credit risk is one of the biggest and most important risks that a financial institution might face. This type of risk is inevitably associated with the counterparties of a bank, with whom it has either directly or indirectly credit relations and is exposed to the risk of loss if counterparties fail to fulfil their agreed obligations and the pledged collateral does not cover GBI's claims.

At GBI, credit risk arises mainly from trade finance lending and treasury activities but also from various other sources. GBI is mainly involved in low default portfolios such as sovereigns, banks, large corporate companies and trade finance activities. The processes of GBI are built in a way that allows classifying counterparties, segregating them and subsequently applying specific processes to effectively cope with credit risks that may increase claims against these counterparties. All business flows implying credit risk are rooted via the credit division that in turn is subdivided into separate teams responsible for assessing and managing credit risks pertinent to corporate counterparties, financial institutions and sovereigns. The aggregation of business flows in credit division allows adequate evaluation of the global balance of risks and exposures.

The risk assessment approaches for different types of counterparties within above subdivisions are different and adjusted to the specific properties of each subdivision type (e.g. financial institutions, non-bank financial institutions, trading companies, industrial corporates) and to the variety of transactions typically handled (e.g. trade finance, shipping finance, project finance, treasury, private banking etc).

The measurement systems have been built in line with the general structure of GBI and they differ depending on the type of counterparty. GBI has dedicated internal rating models for all asset classes

for evaluating the creditworthiness of the counterparties. The rating models are integrated in the credit allocation and monitoring processes. Risk rating models also serve as a basis for calculation of the regulatory capital and economic capital that GBI has to maintain to cover possible losses from its lending activities. Ratings are also integral parts of pricing and risk based performance measurement processes.

The Credit Committee is responsible for the control of all the credit risks arising from the banking book and the trading book, i.e. counterparty risks (for sovereigns, banks, corporates and specialized lending facilities) and concentration risks (single name, country and sectoral concentrations). There are separate credit committees for different business lines within GBI.

The effectiveness of risk monitoring is supported by internal systems ensuring proper compliance to segregation of duties and authorizations principle. Every transaction under approved credit limits requires a number of authorizations and controls prior to execution and cannot be finalized without those. For example, under this structure, every commercial initiative goes through multiple checks and is inputted in the system by authorized personnel who are functionally separated from the personnel with commercial targets. Regular monitoring of GBI's exposure and compliance with the established credit limits ensure timely management of credit risk. The exposures to various customers, business lines and geographical locations are monitored on a daily basis by assigned account and credit officers, while compliance with the established limits is controlled by an independent unit that provides independent judgment.

The credit follow-up process is divided into two main parts:

- follow-up of the customer, and
- follow-up of the credit facility itself.

The follow-up of the customer is associated with the credit risk, whereas follow-up of documentation (credit facility) is related to operational risk. The credit facility follow-up is a dynamic process and distinguished in performing, watch list, default, provision and write-off stages. All shifts within those categories either in the direction of downgrading or upgrading, are done after approval of GBI's credit committee. A loan may be shifted to watch list based on the events outlined in pre-defined warning signals. In case a loan is classified by the credit committee as 'in default' it is shifted to the provision list.

For problematic loans on the provision list GBI attempts to ensure recovery of problematic loans by restructuring, obtaining additional security and/or proceeding with legal actions. Provisions are established for 100% of the outstanding amount of the defaulted credit facility after deduction of expected recoveries. The provisioned credit facility is proposed to the credit committee for write-off after all possible ways of recovery have been exhausted.

In addition to the abovementioned specific credit provisions, GBI also has a dynamic general loan loss provision that is calculated based on the Expected Loss amount as under the CRD.

The internal information system of GBI offers great flexibility in delivering information on regular and ad-hoc basis, allowing to produce a variety of daily reports that comprise bank exposures and concentrations by geographical location, commodity type, supplier and many other criteria.

5.2. Information about exposures

5.2.1. Exposure amounts before Credit Risk Mitigation

The total amount of exposure after provisions and before credit risk mitigation is as follows:

Exposure Class	(EUR 1,000)				
	Average Exposure Q1-2009/Q4-2009	Total Exposure Q4-2009	Total Exposure Q3-2009	Total Exposure Q2-2009	Total Exposure Q1-2009
Central Governments and Central Banks	794,342	1,007,017	799,175	548,222	822,955
Institutions	1,508,159	1,223,840	1,462,810	1,707,016	1,638,968
Corporates	1,361,882	1,613,316	1,434,443	1,359,265	1,040,505
Retail	191,499	249,357	204,928	167,811	143,899
Equity	318	318	318	318	318
Other non credit-obligation assets	51,584	48,848	51,661	52,409	53,418
Grand Total	3,907,784	4,142,696	3,953,335	3,835,041	3,700,063

5.2.2. Geographical breakdown of the exposures

The following table gives an overview of the geographical breakdown of the exposures by material exposure classes based on customer residence:

Geographical Region / Exposure class	Total exposure (EUR 1,000)	Share in exposure
European Union	2,046,311	49.5%
Central governments and central banks	798,488	
Institutions	332,754	
Corporates	622,213	
Retail	243,689	
Equity	318	
Other non credit-obligation assets	48,849	
Turkey	1,393,854	33.6%
Central governments and central banks	208,529	
Institutions	570,571	
Corporates	609,902	
Retail	4,853	
CIS countries	220,320	5.3%
Institutions	111,153	
Corporates	109,167	
Other Europe	108,108	2.6%
Institutions	24,800	
Corporates	83,004	
Retail	304	
Rest of the World	374,103	9.0%
Institutions	184,562	
Corporates	189,029	
Retail	512	
Grand Total	4,142,696	100.0%

5.2.3. Breakdown of the exposures by industry

The breakdown of the exposures by industry and exposure class is as follows:

Exposure class	Sector DNB	Total Exposure (EUR 1,000)
Central governments and Central Banks	Government	1,007,017
Institutions	Banks and financial intermediation	1,223,840
Corporates		1,613,316
	Agriculture, farming and fishing	77,007
	Automotive	52,626
	Banks and financial intermediation	295,017
	Basic materials	355,443
	Capital goods	61,309
	Chemicals	32,249
	Construction and Infrastructure	57,063
	Consumer products non-food	75,041
	Diversified / other	389,162
	Food, beverages and tobacco	21,208
	Insurance and pension funds	23,485
	Leisure and Tourism	5,841
	Media	29,249
	Oil and Gas	57,583
	Private individuals	1,782
	Retail	4,498
	Services	19,844
	Telecom	31,738
	Transport and logistics	3,269
	Utilities	19,902
Retail		249,357
	Consumer products non-food	205
	Diversified / other	670
	Private individuals	248,482
Equity	Diversified / other	318
Other non credit-obligation Assets	Diversified / other	48,848
Grand Total		4,142,696

5.2.4. Effective maturity breakdown

The effective maturity breakdown of all exposures broken down by exposure classes is as follows:

Exposure class	Effective Maturity (EUR 1,000)							Grand Total
	< 3 months	< 6 months	< 12 months	< 24 months	< 36 months	< 60 months	>= 60 months	
Centr.Gov's and Centr.Banks	272,671	61,553	383,942	202,026	12,283	50,245	24,297	1,007,017
Institutions	381,043	211,781	310,985	63,743	79,760	161,611	14,917	1,223,840
Corporates	532,128	241,578	328,459	198,928	101,367	164,482	46,374	1,613,316
Retail	3,184	282	502	242,093	182	44	3,070	249,357
Equity	318	-	-	-	-	-	-	318
Other non credit-obl. Assets	48,848	-	-	-	-	-	-	48,848
Grand Total	1,238,192	515,194	1,023,888	706,790	193,592	376,382	88,658	4,142,696

5.2.5. Impaired and past due exposures, value adjustments and provisions

Below table gives an overview of the outstanding specific loan provision and the related additions to provisions:

	(EUR 1,000)					
	31-12-2008	Write-offs	Repayments	Additions	FX differences	31-12-2009
European Union	4,032	(983)	-	21,619	178	24,846
- Corporates	591	-	-	6,896	73	7,560
- Institutions	-	-	-	9,182	105	9,287
- Retail	3,441	(983)	-	5,541	-	7,999
Turkey	-	-	-	391	(2)	389
- Corporates	-	-	-	239	(1)	238
- Retail	-	-	-	152	(1)	151
Other Europe	496	-	-	37	(17)	516
- Corporates	496	-	-	37	(17)	516
CIS Countries	-	-	-	2,406	-	2,406
- Institutions	-	-	-	2,406	-	2,406
Rest of the world	4,882	-	-	-	(166)	4,716
- Corporates	4,882	-	-	-	(166)	4,716
Total Consolidated Specific Provision	9,410	(983)	-	24,453	(7)	32,873

Exposure is past due if a debtor has failed to make a payment of principal and/or interest when contractually due without the consent of the bank. The 90 days past due amounts broken down by geographical areas as at 31 December 2009 is presented in the table below. The 90 days past due amounts are inclusive of the provisioned amounts.

90 Days past due amounts	31-12-2009 (EUR 1,000)
European Union	18,682
Turkey	189
CIS countries	1,863
Total amount past due	20,734

Impairment: A loan is recognized as impaired if there is objective evidence of impairment. This evidence could be given by, but is not limited to, the events listed below:

- The debtor has been declared insolvent or has filed for bankruptcy and/or protection
- The debtor is under moratorium or liquidation.
- The debtor has payment defaults against the third parties, the customers, banks, employees, etc
- Other creditors are undertaking legal actions towards the debtor
- The debtor has been in arrears for at least 90 days with regard to repayment of principal and/or interest
- The debtor has regular payment problems
- The debtor has negative equity.

There are no value adjustments or recoveries recorded directly to the income statement.

The actual value adjustments in the preceding periods for each exposure class are as follows:

Year	(EUR 1,000)			
	Retail	Corporates	Institutions	TOTAL
2009	5,693	7,172	11,588	24,453
2008	1,857	5,935	-	7,792
2007	278	470	-	748
2006	71	270	-	341

5.2.6. Counterparty credit risk of derivative instruments

GBI applies Original Exposure Method for determining the counterparty credit risk exposure. In this method, the exposure value of the counterparty credit risk is calculated by multiplying the notional principal amounts of each derivative instrument by the percentages as given in table 3 of Annex III, part 1 of the EC directive. The determination of the credit limits for counterparty credit risk follows a similar methodology.

Establishment of a credit limit for counterparty credit risk includes but is not limited to credit limits for:

- Spot and forward Foreign Exchange (FX) transactions
- Currency transactions including currency swaps
- Options
- Forward Rate Agreement (FRA)
- Interest Rate Swaps

- Credit-Default Swap (CDS), etc

Please find below an overview of the net credit exposure of derivatives and repurchase transactions:

Derivatives and Repurchase Transactions	(EUR 1,000)		
	Gross positive fair value	Collateral held	Net derivatives credit exposure
Repurchase transactions	245,949	100,500	145,449
Interest rate swaps	24	-	24
Cross currency swaps	316	-	316
FX swaps	15,174	1,511	13,663
FX spot and forwards	748	664	84
FX options	5,253	4,906	347
TOTAL	267,464	107,581	159,883

5.2.7.Specialized lending

Within the corporate exposure class, credit institutions have to identify separately specialized lending exposure. Specialized lending exposures possess the following characteristics:

- the exposure is to an entity which was created specifically to finance and/or operate physical assets;
- the contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and
- the primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

The following table discloses the specialized lending exposures after provision assigned to the different risk categories as at 31 December 2009:

Exposure Amounts (EUR 1,000)						
Remaining Maturity	Strong	Good	Satisfactory	Weak	Default	TOTAL
Less than 2,5 years	82,695	64,071	7,716	2,406	21	156,909
Equal or more than 2,5 years	-	99	4,597	-	-	4,696
TOTAL	82,695	64,170	12,313	2,406	21	161,605

5.2.8. Credit Risk Mitigation

GBI applies diversified collateral requirements and systematic approaches to security submitted by customers, which depends on the transaction type and purpose, including but not limited to cash margins, physical commodities, receivables, cash flows, guarantees, accounts and physical commodities. The value of collateral is usually monitored on a daily basis to ensure timely corrections or measures to be taken if necessary. Next to that, there are several main types of guarantors that usually are accepted as main or additional security. Among those are typically distinguished high net worth individuals and legal entities having extensive asset bases.

The total exposure value that is covered by eligible financial collateral and other eligible collateral is as follows:

Exposure Class	Sum of Eligible Collateral (EUR 1,000)
Central governments and central banks	100,500
Institutions	66,460
Corporates	160,257
Retail	2,994
Grand Total	330,211

5.3. Scope of Acceptance for F-IRB Approach

GBI applies F-IRB approach for the following exposure classes:

- Central Governments,
- Institutions and
- Corporates (including sub classes Corporates, Non-Bank Financial Institutions and Specialized Lending exposure class of Commodity Finance).

Retail exposures (including sub classes Retail and Private Banking) are subject to permanent exemption from F-IRB and are treated under SA.

Please find below an overview of the portfolios within the scope of F-IRB methodology as at 31 December 2009:

IRB Exposure Class	Exposure Amounts (EUR 1,000)	Risk Weighted Amounts (EUR 1,000)	Average PD Risk Weight
Central governments and Central Banks	326,093	224,863	0.61%
Institutions	1,217,450	611,216	0.68%
Corporates	1,395,930	869,599	1.42%
Grand Total	2,939,473	1,705,678	1.03%

All necessary approvals have been received from De Nederlandsche Bank N.V. (DNB) regarding the use of models for the purpose of calculation of minimum required own funds.

GBI complies with the requirements set out in Directive 2006-48 EC Annex VII, Part 4. The compliance is assured by several internal and external audit and validation processes.

5.3.1. Governance Framework around F-IRB Models and Processes

Credit rating models at GBI are based on a model-life cycle framework and consist of the following steps;

- Model development
- Model approval
- Model implementation
- Use and monitoring of model performance
- Model validation

Model development starts with the identification of the model requirement. This may arise from regulatory needs, improving risk management practices, changes in the risk management structure, changes in business structure that might lead to a new business line or a new asset class, a drastic change in macroeconomic or business environment that might affect risk factors, change in market practices and validation results that would necessitate model re-development.

Model approval starts after the completion of model development and model documentation. All the relevant material regarding the model development is submitted to the RMC for approval. The models are approved based on the criteria, i.e. the model should reflect risk perception of GBI, it should meet regulatory requirements and have a consistent methodology with the other models used by GBI, and it should perform adequately for that specific asset class.

Model implementation starts once the model is approved by RMC. IT related issues, data management, business line re-design and training of the user of the models are included in the generic roll-out plan of model implementation.

The models are used within the various levels of the organization. Related business lines initiate the rating process together with the credit proposals. The Credit Department reviews the rating which is then approved by the Credit Committee. The assigned rating is used for all relevant transactions of the counterparty throughout the whole credit decision making process, including credit allocation, utilization, pricing and performance monitoring.

The correct use of models is audited by CIAS within the scope of the regular audit activities. RMD is responsible for ongoing monitoring of performance of the models. Model accuracy, stability, granularity, use of overrides and the data quality are key performance indicators for model performance.

Model validation framework is managed by a validation team that is composed of independent members from the model development team. In order to avoid the "Conflict of Interest" adequately, third parties are hired to ensure independence. RMC has the ultimate decision making authority in the formation of the validation team and the selection of the third party. The findings of the validation team are presented in the validation reports. These reports are immediately shared with DNB following the completion of the validation process and the developments are discussed annually within the scope of

regular Supervisory Review Process. Model validation is conducted once a year and may be conducted more frequently based on the model performance.

Model maintenance is an ongoing process which follows several steps within the lifecycle of the model. GBI has established procedures in order to support the change management. These procedures explain the roles and responsibilities of the related stakeholders during the implementation of a change in the models, including detailed procedures related with the IT infrastructure of the models. These activities are audited by CIAS on a regular basis in addition to the checks and controls carried out within the scope of the validation process.

5.3.2. General Description of Models

GBI has dedicated rating models for all the sub exposure classes mentioned above. The rating models within the scope of F-IRB application can be grouped in two:

- PD Models: These models provide obligor grades based on the masterscale defined by GBI. The masterscale has 22 rating grades and provide sufficient granularity for risk assessment. The rating grades are converted to Probability of Default (PD) via masterscale. Masterscale is reviewed on an annual basis and updated where necessary based on the internal and external changes in circumstances.
- SSC Models: GBI has developed rating models for Specialized Lending exposure classes of Commodities Finance and Shipping Finance based on the Supervisory Slotting Criteria (SSC) as per the conditions stated in CRD. SSC Models provide 5 grades, which are mapped to risk weights set by the regulator.

All rating methodologies within GBI have similar and consistent methodologies, which are based on two steps. The first step contains financial and non-financial models that produce a combined score. This score is further adjusted with a score for a number of warning signals. The second step has three layers of override mechanisms. These mechanisms include risk factors related with country of the obligor and parental support. The final override is the transfer risk policy, which caps the foreign currency rating, based on the country ceiling of the country of the counterparty.

6. Market Risk

Market risk is defined as the current or prospective threat to GBI's earnings and capital as a result of movements in market prices, i.e. prices of securities, commodities, interest rates and foreign exchange rates.

GBI assumes market risk in trading activities by taking positions in various financial instruments such as foreign exchange and fixed income. GBI has historically been conservative in its trading activities. The strategy is mainly focusing on client driven intraday trading with limited overnight exposures.

Asset and Liability Committee (ALCO) bears the overall responsibility for the market risk and sets the limits for the trading positions and stop loss levels on product and responsibility level basis. Treasury Department actively manages the market risk within the limits provided by ALCO.

Internal Control Unit (ICU) controls and follows-up the transactions and positions on an ongoing basis, whereas Financial Control and Reporting Department follows-up the profit and loss on the transactions and the positions. Risk Management Department monitors market risk through regulatory and economic capital models and reports to ALCO and Supervisory Board Audit and Risk Management Committee.

Below table gives the breakdown of the capital requirement for market risk:

Market Risk	Amount (EUR 1,000)
Foreign Exchange Risk	3,179
Equity	810
Trading Book Risk	281
Total Capital Requirement	4,270

7. Operational Risk

Operational risk refers to the risk of loss because of inadequate or failed internal processes, staff and systems or external events, and includes legal risk. Such risks are managed through bank-wide or through business line specific policies and procedures, controls, and monitoring tools. GBI's policy to control operational risk is communicated with and implemented in all business lines. Key elements in this policy are Know Your Customer principles, delegating tasks and responsibilities, issuing clear policies, procedures and directives, segregation of duties, four-eyes principles, carrying out supervision, taking corrective action, maintaining highly responsive accounting systems, systematic internal controls and performing periodic internal audits.

Credit institutions are required to hold own funds against operational risk for which several approaches are possible. GBI applies the Basic Indicator Approach in order to determine the capital requirement for operational risk.

Under the Basic Indicator Approach the capital requirement is equal to 15% of the relevant indicator, where the relevant indicator is the average over three years of the sum of net interest income and net non-interest income. The three-year average is calculated on the basis of the last three twelve-monthly observations at the end of the financial years. If audited figures are not available at the time, business estimates may be used. The average of net interest income and net non-interest income over the past three years amounted to EUR 77.5 mio, which result in a capital requirement for operational risk of EUR 11.6 mio.

8. ICAAP Framework

GBI has designed a comprehensive ICAAP framework by making use of qualitative and/or quantitative assessment methodologies where apply. The methodologies used are believed to be the most appropriate ones in line with the risk profile of GBI and they reflect the underlying risks in a prudent manner.

ICAAP starts with the assessment of the capital allocated for Pillar 1 risks. The capital calculations under Pillar 1 are referred as Regulatory Capital (RCAP). GBI has dedicated assessment methodologies for credit, market and operational risks, which are used to come up with an Economic Capital (ECAP) figure. RCAP and ECAP are compared for each risk type under Pillar 1 and the one with higher result is taken as the outcome of the comparison. The total of the outcomes for each risk type is the final outcome of ICAAP for Pillar 1 risks.

The second step is to take into account the additional capital requirements arising from the risks, which are not taken into account in Pillar 1. GBI has a dedicated assessment methodology for each material Pillar 2 risk. The capital requirement for the concentration risk and interest rate risk in the Banking Book are calculated through quantitative techniques, whereas the strategic risk is assessed within the scope of capital plan.

Risk Type	Materiality	Covered in
Credit Risk	Material	Pillar I and Pillar II
Concentration Risk	Material	Pillar II
Market Risk	Material	Pillar I and Pillar II
Operational Risk	Material	Pillar I and Pillar II
Interest Rate Risk on the Banking Book	Material	Pillar II
Liquidity Risk	Material	Pillar II
Strategic Risk	Material	Pillar II
Business Risk	Immaterial	Pillar II
Reputation Risk	Immaterial	Pillar II
Residual Risk	Immaterial	Pillar II
Pension Risk	Immaterial	Pillar II
Legal Risk	Immaterial	Pillar II
Settlement Risk	Immaterial	Pillar II
Underwriting Risk	Not Applicable	-
Securitisation Risk	Not Applicable	-

8.1. Credit Risk

GBI has a dedicated Economic Capital (ECAP) model for credit risk, which is used as a benchmark to assess the adequacy of regulatory capital allocated for credit risk under Pillar 1. A 99.9% confidence level, which is in line with GBI’s external rating target, is used in the ECAP calculations.

8.2. Concentration Risk

GBI constantly follows the credit risk positions of all obligors via a comprehensive management information system. Exposures to countries and sectors are followed up on a daily basis by the Credits Department and monitored and discussed regularly at the Credit Committee.

Follow-up of large exposures is also an integral part of this process. GBI monitors the large credit exposures to group of customers on a daily basis and proactively manages single name concentration. Large exposures are also reviewed by Credit Committee and Supervisory Board on a regular basis. RMD monitors the concentration risk, quantifies its impact on the regulatory and economic capital, and reports to RMC.

GBI has developed an integrated quantitative methodology for the assessment of concentration risk. Concentration risk model is another economic capital methodology which takes into account the main concentration elements in the portfolio, namely single name concentration, country concentration and sector concentration, in a more conservative manner. The outcomes of the concentration risk model are supplemented by various stress tests.

8.3. Market Risk

GBI is using Value-at-Risk (VaR) methodology as a risk measure for the market risk on the trading book in order to assess the adequacy of the capital allocated under Pillar 1. VaR quantifies the maximum loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, etc) for a time interval of one day, with a confidence level of 99.9%. VaR is supplemented by stress tests to determine the effects of potentially extreme market developments on the value of market risk sensitive exposures.

8.4. Interest Rate Risk on the Banking Book (IRRBB)

Day-to-day interest rate risk management is carried out by the Treasury Department in line with the policies and limits set by ALCO.

Interest Rate Risk is measured and monitored by using Duration, Repricing Gap Analysis, Earning at Risk and Economic Value Sensitivity measures. Standard stress tests form a basis for the quantification of interest rate risk in the banking book for Basel II, Pillar II. All calculations are carried out on a weekly basis and discussed at ALCO level.

Sensitivity analyses are based on both economic value and earnings perspectives. Interest sensitivity is measured by applying both standard parallel yield curve shifts, historical simulation approach and user defined yield curve twist scenarios. All analyses are based on the interest rate repricing maturities of the transactions and GBI applies full pricing methodology for the quantification. GBI makes use of behavioral analysis for the products that do not have contractual maturities, i.e. saving deposits. The repricing frequency of these products are measured based on the historical observations. The prepayments are not taken into account as this risk is mitigated to a large extent by the legally enforceable contracts that do not allow for prepayments or require prepayment penalties.

Interest rate sensitivity analysis is also used for evaluating hedging strategies, internal limit setting and limit monitoring purposes, which enables GBI to manage the interest rate risk in a proactive manner. The outcomes of these analyses are discussed at ALCO and used effectively in decision making processes for hedging and pricing. RMD provides reporting and contributes to the market risk management process in a proactive manner.

Economic Value Perspective (EVE)⁽¹⁾						
	EUR	USD	TRY	RON	OTHER	TOTAL
Shift Up Net (Eur mio)⁽²⁾	9.7	-9.7	0.8	-3.1	-0.1	-2.4
Shift Down Net (Eur mio)⁽²⁾	-10.2	10.8	-0.8	3.3	0.1	3.2

Standard 200/300 Bps	Change in EVE 2.4	Change in EVE / Own Funds 0.75%
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(1) Static balance sheet, based on instant liquidation (2) 200 Bps shock for G10 and 300 Bps shock for non-G10

GBI follows-up the regulatory scenario (200 bps parallel shock) for IRRBB as per the regulatory requirements. The standard parallel shock in yield curve leads to a potential decrease in economic value of EUR 2.4 mio (0.75% of the total own funds), which is well below the regulatory threshold of 20%. This is a reflection of the limited interest rate risk profile of GBI.

8.5. Liquidity Risk

The main objective of GBI's liquidity risk policy is to maintain sufficient liquidity in order to ensure safe and sound operations. ALCO bears overall responsibility for the liquidity risk strategy. ALCO has delegated day-to-day liquidity management to the Treasury Department, which is responsible for managing the overall liquidity risk position of GBI. The Treasury Department monitors all maturing cash flows along with expected changes in core-business funding requirements to maintain the day-to-day funding.

GBI aims for a well-diversified funding mix in terms of instrument types, fund providers, geographic markets and currencies. RMD monitors liquidity risk through gap analysis, which is supplemented by scenario analysis. These analyses allow applying shocks with different magnitudes on the liquidity position of GBI. Scenarios are driven based on bank-specific and market specific liquidity squeezes. In addition, cash capital concept, which shows the excess of long term funds over illiquid assets, is used as a measure for long-term funding mismatch. GBI has a detailed contingency funding plan in place for management of a liquidity crisis situation. All liquidity analyses are reported to ALCO on a regular basis by RMD. ALCO reviews and plans the necessary actions to manage the liquidity gaps.

The following table provides a maturity analysis of assets and liabilities according to their remaining maturity:

(EUR 1,000)	On demand	< 3 months	> 3 months - < 1 year	> 1 year - < 5 years	> 5 years	provisions	Total
Assets							
Cash	425,757	-	-	-	-	-	425,757
Banks	15,203	271,756	415,284	20,043	-	(2,406)	719,880
Loans and advances	21,367	514,543	440,915	405,895	242,403	(31,925)	1,593,198
Interest bearing securities	-	52,071	160,924	480,208	37,685	(7,996)	722,898
Shares	2,531	-	-	-	-	-	2,531
Participating interests	318	-	-	-	-	-	318
Property and equipment	-	-	-	-	48,848	-	48,848
Other assets	79,021	-	-	-	-	-	79,021
Prepayments and accrued income	64,844	-	-	-	-	-	64,844
31 Dec. 2009	609,041	838,376	1,017,123	906,146	328,936	(42,327)	3,657,295
31 Dec. 2008	1,014,275	600,235	897,287	838,637	294,490	(18,210)	3,626,714
Liabilities							
Banks	200,701	95,759	154,833	157,034	-	-	608,327
Funds entrusted *	1,255,635	810,346	316,568	222,403	188	-	2,605,140
Debt securities	-	3,291	3,600	16,960	-	-	23,851
Other liabilities	12,078	-	-	-	-	-	12,078
Accruals and deferred income	58,202	-	-	-	-	-	58,202
Provisions	-	-	-	-	16,414	-	16,414
Subordinated liabilities	1,322	11,863	819	3,941	35,804	-	53,749
Shareholders' equity	-	-	-	-	279,534	-	279,534
31 Dec. 2009	1,527,938	921,259	475,820	400,338	331,940	-	3,657,295
31 Dec. 2008	986,511	893,611	1,023,376	465,416	257,800	-	3,626,714

* This includes on demand retail funding which has a longer term characteristic.

8.6. Operational Risk

GBI applies a qualitative assessment methodology for the operational risk. The Banks follows Financial Institutions Risk Analysis Method (FIRM) methodology, which is a methodology introduced by DNB. The standard FIRM questionnaires are filled out by Compliance and Internal Audit Services (C&IAS) Department, together with the related business lines and operations departments. The questionnaires are reviewed by C&IAS and taken into account proactively for several purposes, i.e. used in the preparation of the audit plan, included in the audit findings for the related department or

used to design regular checks by Internal Control Unit (ICU). The outcomes are also reviewed by the related departments and mitigating actions are taken where appropriate.

FIRM questionnaires are also used during the ICAAP process by the use of a scoring methodology. The answers to the questions are translated into scores in a similar way that is explained in the FIRM manual of DNB.

8.7. Other Risks

GBI has limited or no exposure to reputation risk, business risk, residual risk, pension risk, legal risk, settlement risk, underwriting risk and securitization risk. These risks, together with operational risk, are monitored in regular audit activities and by way of applying FIRM assessments. Strategic risk is taken into account in the capital planning process in order to account for the possible increase in the capital requirement based on the strategies or the business models that are chosen by GBI.

8.8. Capital Planning

GBI has developed a capital planning structure based on two scenarios, one of which is in line with GBI's current expectations and financial budget. The second scenario involves with more conservative assumptions in order to assess the future capital adequacy of GBI under stressed economic and financial conditions. GBI Stress test outcomes are used in order to assess the sufficiency of the capital buffer in order to cover the potential future capital requirements for the next three consecutive years.

Capital plan aims to cover as many aspects as possible, including expected profit, liquidity sources, portfolio mix, capital structure and asset quality, in order to reflect the impact of several risk factors on the profitability and the capital adequacy of GBI at the same time.