

RISK MANAGEMENT AND INTERNAL CONTROL

Tekstilbank's risk management policy rests on its sound and prudent bank management culture and complies largely with international standards, interest rate and liquidity management requirements, corporate governance principles and carries with it the highest ethical values from within the banking profession.

The Organizational Structure of the Risk Management Group

The bank has set in place an independent risk management function within The Risk Management Group, covering all risks: market, credit and operational risk. The Head of Risk Management Group reports to the Audit Committee, whose members are chosen among the Board of Directors. The Board of Directors formally approves overall risk management strategies and the direction of business. The Board regularly monitors the bank's financial performance, reviews and controls risk management activities and bears the final responsibility of approving the bank's risk appetite. Risk Management Department is the center of performing this function. This department reports to the Bank's Risk Committee, The Head of Risk Management Group.

Risk Management Department consists of three business units as;

Credit & Operational Risk Management Unit
Market Risk Management Unit
Business Continuity Unit.

Market Risk Management

Market risk, at Tekstilbank, is measured utilizing Value-at-Risk (VaR) methodology. VaR is calculated on a daily basis by employing three models: the Variance-Covariance, the Historical Simulation and Monte Carlo methods. Each model generates daily VaR estimates of the overnight risk on the assumption of a one-day holding period inherent in the portfolio at a 99% confidence level for the last 250 trading days.

Beyond this, while the VaR supplies forecasts for potential large losses under normal market conditions, the bank also performs stress tests under extreme market scenarios not covered by the confidence interval of the value-at-risk models.

The Market Risk Management Unit is responsible for monitoring and storing financial data, measuring market risk, overseeing new risk model development and measurement methodologies and performing stress-testing and back-testing at regular intervals.

In measuring the market risk, the Market Risk Department operates on a Java-based multi-user task software. The software application is flexible and can be customized swiftly for specific needs. It functions under specified market risk measurement modules including VaR calculations, stress testing, back testing and sensitivity analysis for defined classes of portfolios. Daily data concerning recent market developments and the bank's positions are provided on a regular basis. The quality of data storing and verification capabilities is highly advanced. To verify the reliability of VaR calculations, the bank also carries out back testing by comparing daily VaR results with the actual daily profit and loss.

Credit Risk Management

Credit risk is defined as the potential loss due to probable unexpected defaults and/or the result of an unexpected decrease in the creditworthiness of counter parties; therefore the main objectives of the credit risk management activities are the systematic specification, monitoring and management of the creditworthiness of counter parties and of the probable risks therein.

The Credit and Operational Risk Unit works within the scope of the main tasks defined in relevant regulations and is in charge of specifying and implementing the policies towards the effective functioning of the Bank's lending process; the strategies for appropriate management, measurement and monitoring of credits; taking or proposing measures for the maximization of - returns -on a portfolio or company basis- the Bank receives in turn for the risks it takes; and developing advanced systems for the measurement of probable losses under various scenarios pertaining to the future. Regular analysis of the ability of borrowers to meet their principal and interest repayment obligations is conducted. Credit risk is monitored by reference to risk ratings and managed by limiting the aggregate exposure to any individual counter party, group of companies or industry.

We target to comply fully with Basel II standards as soon as the legal authority gives start for the implementation of Basel II among the Turkish Banking Sector.

Operational Risk Management

Operational risk is a concept encompassing all types of risks -excluding market and credit risk- statistically measurable based on historical data, that would expose the bank to material loss or loss of reputation, emanating from organizational, technological, procedural, human or external factors.

Credit & Operational Risk Management Unit measures the operational risk capital requirement annually with the basic indicator method. The legal reporting has been started since June 2007 by the basic indicator approach. And the operational risk measurement has been added in capital adequacy ratio measurement since then

A Loss Database has been compiled to serve as an appropriate infrastructure for advanced measurement models and for compliance with Basel II requirements. Through the utilization of this database, data on operational loss are collected systematically; accumulated loss data are analyzed and reported to the senior management.

For the minimization of the probability of exposure to operational risk, the critical task of providing healthy and effective internal communications is diligently executed.

Business Continuity Management

The Business Continuity Unit executes the tasks necessary for managing the risk of interruptions in business continuity.

The Business Continuity Unit is in charge of determining the Bank's business continuity strategies and preparing of Emergency Plans: Business Continuity Plan, Risk Analysis and Probability Plan, Emergency Action Plan. The Unit supervises the completion of necessary tests and training in order to keep the plan continuously up-to-date. For the purpose of procurement of equipment and assignment of staff to provide business continuity, the unit communicates the necessities to relevant Bank officials for budget preparation, approval and allocation.

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The Business Continuity Unit reports its views -to the Bank Risk Committee- on the management and control of the Business Continuity Center, the arrangements and revisions deemed necessary and the activities to be initiated and solutions to be found in the event of unexpected problems that arise.

Internal Control System

Internal Control Center, which was made obligatory to be founded in accordance with the arrangements made by Banking Regulation and Supervision Agency (BRSA) in 2001 for the purposes of planning internal control activities and providing coordination, was founded by Tekstil Bankası A.Ş. in July 1, 2001 and started operating in January 1, 2002.

In March 10, 2008 in order to realize more systematic and more effective compliance controls, the name of the center was turned to “Internal Control Center and Compliance Presidency”.

The presidency continues its activities in accordance with the Banking Law numbered 5411 and the standards of “Regulation on Internal Systems of Banks” which was issued by BRSA in November 1, 2006.

The control activities of the presidency are realized in 3 main categories, which are Head Office Control Activities, Branches Control Activities and Compliance Activities.

Internal control activities consist of;

- The control of operational transactions related to the execution of activities
- The control of communication channels
- The control of information systems’ application
- The control of financial reporting system
- The control of compliance

The Strategies and Policies of Control and Regulation of Internal Control Center and Compliance Presidency, which were approved by the Board of Directors of the Tekstil Bankası A.Ş., are fundamental internal documents of the bank which are defines responsibilities and authorities. Both documents were announced to the staff.

The necessary arrangements for the obligation of addressing to Internal Control Center and Compliance Presidency before receiving the approval of Board of Directors for new goods and operations; also, planned actions were made and related staff was informed. A staff was charged to control the compliance of Euro Textile Bank Ltd. (ETB), which is the undertakings subject to consolidation of Bank, to the foreign arrangements; the staff is actually realizing controls. Opinions for the regulation and application orders are told, participation in many projects of the bank is ensured.

Risk-focused internal controls are being planned and precautionary control activities, concentrating on possible high-risk areas, are being arranged.

As an integral part of the daily routine work of the Internal Control Center, daily, weekly, monthly and periodical reports are prepared, as the situation necessitates, and these are presented to the Audit Committee for information purposes.

In the Internal Control Center reports, a special importance is given to developing suggestions and activities towards eliminating control deficiencies in work processes and creating a control culture within the Bank.