

STANDARD CHARTERED YATIRIM BANKASI TÜRK A.Ş.

ACTIVITY REPORT OF 2019

Report Period	: 01.01.2019-31.12.2019
Registered Name of the Bank	: Standard Chartered Yatırım Bankası Türk A.Ş.
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ACTIVITY REPORT

COMPLIANCE OPINION

To: STANDARD CHARTERED YATIRIM BANKASI TÜRK A.Ş. General Assembly

We have audited the financial information given in the activity report of **STANDARD CHARTERED YATIRIM BANKASI TÜRK A.Ş.** prepared as of 31 December 2019 for the compliance and consistency with the independent audit report prepared as of year-end. The activity report in question is under the responsibility of the Bank's management. Being in the capacity of an independent auditor, our responsibility will be giving and expressing an opinion about the audited activity report.

The audit was carried out in accordance with those principles and terms enacted and put into implementation in accordance with the Banking Act no 5411 about the issue and publication of an activity report as well as pursuant to independent audit principles. These regulations require us to plan and execute the audit in question to attain a reasonable assurance whether there is a material error in the activity report. We believe in the fact that the completed audit gives a reasonable, sound and adequate basis for us to reach an opinion.

In our opinion, information and data reflected in the attached activity report fairly reflect the financial position of **STANDARD CHARTERED YATIRIM BANKASI TÜRK A.Ş.** as of 31 December 2019 in all material terms and aspects in accordance with such principles and terms defined in those regulations in force in accordance with Article 40 of the Banking Act no 5411, containing a brief report by the board of directors, and an independent auditor opinion, all being in compliance with the data and information shown on the audited financial statements.

KPMG Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik Anonim Şirketi

Erdal Tıkmak
Partner

İstanbul, 16 March, 2020

**STANDARD CHARTERED YATIRIM BANKASI TÜRK A.Ş.
DECLARATION RELATED TO ACTIVITY REPORT OF 2019**

The annual activity report of Standard Chartered Yatırım Bankası Türk A.Ş. has been prepared in accordance with the provisions of the “Regulation on the Principles and Procedures Concerning the Preparation of and Publishing Annual Report by Banks” published in the Official Gazette No.26333 dated 01.11.2006 and presented hereafter following the resolution of Board of Directors.

Tracy Jayne CLARKE
Chairperson of Board of
Directors

Karin FLINSPACH
Vice Chairperson of the Board and
Board Member Responsible for
Financial Reporting

Alper Tunga KILIÇ
Board of Directors Member and
Audit Committee Member

Belma ÖZMEN
Board Member and
Chairperson of Audit Committee

Kaşif ATUN
General Manager

Francois MASSENA
Accounting Manager

A. GENERAL INFORMATION

I. Summary of Financial Information Related to Activity Results

	BANK ONLY
	31.12.2019
	(TRY 000)
Total Assets	109,522
Credits	0
Securities	0
Borrowings	0
Equity (including net profit)	98,273
Net Profit of the period	19,661
Capital Adequacy Ratio (%)	105.32

II. History of the Bank

Credit Agricole Yatırım Bankası Türk A.Ş. was established as an Investment Bank on January 9, 1990, according to the 4th and 8th articles of the Banking Law No. 3182 (as a result of the letter from the Undersecretariat of State Planning Organization, Foreign Capital Presidency, dated August 11, 1989, numbered 7075 and a letter from Ministry of State, dated August 18, 1989, numbered 57797) in compliance with Foreign Capital Encouragement Law No. 6224.

Our Bank has taken over all the assets and liabilities (inclusive of the paid-up capital and reserves and exclusive of the deposits) and the debts, credits and rights of Credit Lyonnais (Paris) Center France, Istanbul Turkey Central Branch (“Credit Lyonnais Türkiye”) on March 18, 2004.

As of 28 December 2007, "Calyon Bank Türk A.Ş." changed its registered trade name as "Calyon Yatırım Bankası Türk A.Ş.”.

The Bank obtained approval from Banking Regulation and Supervision Agency for the amendment of Articles of Association dated 6 February 2010 and in the Extraordinary General Meeting held on 26 February 2010 with the decision of the Board of Directors dated 9 December 2009 the title of the Bank has been changed to "Credit Agricole Yatırım Bankası Türk A.Ş.”. This change of the title has been registered in the Trade Registry Gazette dated 8 March 2010 numbered 7516.

Upon the takeover of the shares by Standard Chartered Bank with Banking Regulation and Supervision Agency's approval letter dated 19 October 2012 and numbered B.02.1.BDK.0.12.00.00.11.01-21395, within the scope of the 18th Article of Banking Law numbered 5411, the shareholder structure and control of the Bank has been changed as of 4 November 2012.

As approved by the permission letter of the Banking Regulation and Supervision Agency, dated 8 November and numbered 2012 B.02.1.BDK.0.12.00.0011.1-22391 and Ministry of Customs and Commerce, dated 20 November 2012 numbered B.21.0.İTG.0.03.00.01/431.02-46310-1186464-87507274, as amended in accordance with the Articles of Association of the Bank, the “registered trade name” under the 3rd provision of the Articles of Association has

been changed from "Credit Agricole Yatırım Bankası Türk A.Ş." to "Standard Chartered Yatırım Bankası Türk A.Ş." with the approval of the Extraordinary General Meeting held on 22 November 2012 and published in the Turkish Trade Registry Gazette dated 30 November 2012.

III. Amendments to Articles of Association During the Accounting Period and Underlying Reasons

There has been no amendment in the Articles of Association of the Bank during the accounting period.

IV. Capital and Shareholding Structure of the Bank

The shareholding structure of the Bank is below. There has been no amendment in the capital and shareholding structure of the Bank during the accounting period.

SHAREHOLDER'S NAME	SHARE IN THE CAPITAL (TRY)	PERCENTAGE (%)
Standard Chartered Bank	40,125,759.60	99.99
Standard Chartered UK Holdings Limited	0.10	0.00
SCMB Overseas Limited	0.10	0.00
Standard Chartered Overseas Holdings Limited	0.10	0.00
Standard Chartered Holdings (International) B.V.	0.10	0.00
TOTAL	40,125,760.00	100.00

V. Explanation Regarding the Shares of Chairperson and Members of Board of Directors, General Manager and Assistant General Managers

Chairperson and members of the Bank's Board of Directors, General Manager and Assistant General Managers do not hold any shares of the Bank.

VI. Evaluations of the Board of Directors' Chairperson and General Manager Regarding the Activity Period and Their Future Expectations

SCB's presence in Turkey dates back to 2003 when the Bank first opened its representative office. In 2012, SCB upgraded its presence to an investment bank with the acquisition of Credit Agricole Yatırım Bankası, changing the registered name of the local entity to Standard Chartered Yatırım Bankası Türk A.Ş., and now the Bank continues its operations under investment banking license.

The Bank is focused on serving its key strategic clients - Turkish Conglomerates and Financial Institutions in Turkey, SCB footprint and network clients located in Turkey as well as in SCB's footprint and network countries - providing a complete range of wholesale banking products in the realm of Transaction Banking, Global Markets and Corporate Finance.

Standard Chartered Bank's global strategy is to focus on banking for the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East. Turkey is well positioned to fulfil customers' needs for local and international transactions.

The growth and investment strategy in Turkey is intended to improve as more customers get aligned with the requirements of the global strategy and extending the Bank's activities accordingly.

In this regard, the Bank's main activity continues to be providing support/advisory services for the entities within the body of SCB Group in their relations with their clients and those clients' subsidiaries/affiliates based in Turkey or abroad.

VII. Explanation on the Number of Personnel and Branches, the Service Type and Activity of the Bank and Evaluation of Its Position in the Banking Sector

The Bank operates under an "Investment Bank" license and therefore does not accept client deposits. The main office is located in Istanbul and there are no branches. As of 31 December 2019, the number of personnel was 29.

The Bank provides products and services to clients, specializing in transaction banking, corporate finance and financial markets. Also, as a subsidiary within the SCB Group, the Bank provides support/advisory services for the SCB clients which seek to do business in Turkey.

- **Corporate and Institutional Banking (CIB)**

As of 31 December 2019, no client specific transactions were booked.

- **Transaction Banking (TB)**

On the back of SCB's large network and trade expertise, the Group continues to offer the capability/capacity to support clients with a wide range of trade finance products covering both export and import loans, letter of credits issuance, negotiation and confirmation as well as letter of guarantees issuances. TB business is the entry point to new clients and support cross-sales to deepen the relationships with the existing clients.

No TB-related assets/liabilities/contingents or commitments were booked in 2019.

- **Financial Markets and Treasury Management**

Financial Markets and Treasury Department has executed placement of the capital and spot FX transactions in the CBRT money market and interbank market for liquidity risk management.

- **Support Services**

Support Services include the following functions: Human Resources, Corporate Real Estate Services, Information Technology, Information Systems Security, Operations, Financial Control and Accounting.

Our objective in **Human Resources (HR)** is to facilitate continuously changing dynamics and to create an environment in accordance with the global values of SCB Group. HR supports the remuneration review process by monitoring the market conditions to identify the needs for adjustments. In addition, HR facilitates the performance review process conducted through individual assessments with department heads which includes feedback, development and career planning. Individual training programs are planned through a combination of online/electronic courses, workshops and external courses. Individual staff development objectives are decided through conversations with department heads in line with the SCB Group strategy.

In **Corporate Real Estate Services**, the Bank's premises, security and maintenance operations are managed and assessed to support the Bank's logistical requirements. Regular reviews of the working environment and health&safety are performed including the workplace safety trainings.

In the **Information Technologies** field, all the necessary projects that were planned in 2018 under the scope of Information Technology have been implemented successfully during 2019.

Business Continuity and Disaster Recovery Centre is fully operational in Izmir. Entire data backups are available in this location and all databases are also being synchronised with the core banking database on a daily basis. "Business Continuity and Disaster Recovery Plan" is being monitored and updated concurrently. All technical and operational tests are being held twice a year.

Information Systems Security keeps the banking platforms and its environments to run on secure technology by doing an analysis on each product in line with the Group's standards under the terms of existing laws.

Operations Department ensures operational supports in money market transactions and placements in capital markets, domestic and international payments, foreign trade transactions and global trade finance for corporate and financial institutions. The Operations Department also follows regulations and related modifications made by international and local regulatory bodies. The Department reports transactions with customers and banks to different regulatory bodies on daily and monthly basis. Together with the local IT team, Operations Department follows system developments, required by regulatory bodies or for internal needs.

Financial Control and Accounting Department implements controls through policies and procedures to monitor the processing of transactions and to ensure the accurate reporting of financial information internally to the management, and externally to the regulators, governmental bodies and other stakeholders.

- **Internal Systems Units**

Internal systems include Risk Management, Internal Control and Compliance as well as Internal Audit.

Risk Management Unit identifies and measures all existing and potential risks that the Bank is exposed to within the framework of the related regulations of the BRSA independently from the Executive Management, controls and monitors risks within the Bank and reports

directly to the Board of Directors through the Audit Committee. This unit maintains its activities within the framework of “Regulation on Risk Management and Risk Management Handbook” which was approved by the Board of Directors.

Compliance and Internal Control Department is responsible for all control systems. It requests information based on reporting from various departments in order to control, analyse and monitor the banking activities in a secured way within the framework of Banking Law No.5411 and the BRSA Regulation on the Internal Systems of Banks and Internal Capital Adequacy Assessment Process. The Department performs its controls by examining or observing generally or specifically several control documents, processes and tools; reports the findings or communicates warning messages to related departments for corrective action.

It also ensures the compliance of internal procedures and application with the general principles of corporate governance, the ethical rules, related laws, regulations, legal texts and agreements for which the Bank is a party. It acts as liaison or point of contact between legal and tax counsels and business lines, makes necessary research and reporting related Bank’s customers and transactions within the framework of related law and regulations, Banking Law No.5411 and Law No.5549 on the Prevention of Laundering Proceeds of Crime. This department follows up the respective legislation and gives opinions on the requested issues to the Board of Directors, Executive Management and Business Lines. On the other hand, this Department is responsible for ensuring the relationship with the regulators on the compliance issues, organizing and carrying out staff awareness programs.

Internal Audit Unit operates under the Internal Audit Regulation approved by the Board of Directors. Internal Audit gives independent assurance with risk-based approach to the Board of Directors and top management via the Audit Committee about whether the activities of the Bank are compliant with the laws and other legislations, internal strategies, policies and principles, if significant risks are identified and proper controls to manage these risks are established and whether they are implemented effectively. With a risk-focused approach, all banking activities are audited regularly and independently within the framework of the internal audit plan. The follow-up of findings are made regularly by the Internal Audit according to the declared action plan. Information systems audit is also performed by the Internal Audit Unit.

As per BRSA’s communiqué on “Management Declaration” dated 30 July 2010, Internal Audit Department regularly conducts the Management Declaration including Banking and Information Systems Processes.

- **Evaluation of the Bank in the Banking Sector**

The Bank reduced its activities in prior years in line with the decision of the Board of Directors. As a result, the Bank has maintained a strong capital adequacy ratio with low levels of risk exposure. The Bank has focused on the consultancy and support services given to the SCB Group in their relations with their clients for financing their international investments on the primary sectors along with supporting their organic and inorganic growth.

VIII. Information on the Research and Development Related to New Services and Activities

The Bank continues to assess product needs based on clients' feedback while taking into account the regulatory requirements impacting Investment Banks.

B. INFORMATION ON MANAGEMENT AND CORPORATE GOVERNANCE

I. Names, Terms of Office, Areas of Responsibilities, Educational Level, Professional Experience of Chairperson and Members of Board of Directors, Audit Committee Members, General Manager and Assistant General Managers, Heads of Internal Systems' Units

a) Chairperson and Members of Board of Directors

Tracy Jayne Clarke, Chairperson of the Board of Directors: She has a Master degree in Business Administration from Henley Business School and University of Brunel. She has been working for Standard Chartered Bank in different roles since 1985. She has 35 years of banking experience. She continues her duties as Regional CEO, Europe and Americas since October 2015. She is the Chairperson of the Board of Directors, SCB Turkey, since 2 June 2017.

Karin Flinspach, Deputy Chairperson: She has a Bachelor's degree in European Business Administration from University of Reutlingen. She has 26 years of banking experience. She continues her duties as the Regional Head of Transaction Banking, Europe. She is member of the Board of Directors, SCB Turkey, since 31 March 2017.

Kaşif Atun, Member of the Board and CEO: He has a Bachelor's degree in Business Administration from Central Connecticut State University and has a Master degree in Business Administration and Organization. He has 30 years of banking experience. He served as Deputy General Manager responsible for Financial Institutions until 2nd December 2015. From that date forward, he has been serving as the CEO and Board member.

Alper Tunga Kılıç, Board of Directors Member: He has a Bachelor's degree in Metallurgical Engineering from Middle East Technical University and has a Master degree in Business Administration from University of Dallas. He is the Regional Head of Corporate Finance, Europe and since 1st of August 2016 he has been a member of our Bank's Board of Directors. He has 25 years of banking experience.

Belma Özmen, Member of Board of Directors and Head of Audit Committee: She has a Bachelor's degree in Economics from Hacettepe University Social and Administrative Sciences Faculty. She has worked in different international banks and institutions in audit and managerial positions. She has a total of 35 years of banking experience. She has been a member of the Board of Directors since 17 September 2019.

b) Heads of Internal Systems' Units

Güliz Tınç, Head of Internal Audit: She has undergraduate degree in English Language and Literature from Marmara University and in Business Administration from Anadolu University. She has a banking experience of 35 years. She has been working in the Bank since 1990.

Fatih Sevimli, Risk Manager: He has Bachelor's degree in Business Administration and Political Science & International Relations from Bogazici University and Master degree in Political Economy of Europe from The London School of Economics. He has a total of 8 years of banking experience. He has been working as the Risk Manager since 24 February 2020.

Diğdem Tümtürk Güner, Head of Legal & Compliance and Internal Control: She has Bachelor's degree in International Relations from the Middle East Technical University and Master degree from University of Wales. She has a banking experience of 13 years. She has been working in the Bank since 2013 and serves as the Head of Legal & Compliance and Internal Control since 31 May 2019.

II. Terms of Office and Professional Experiences of the Auditors

Erdal Tıkmak, Audit Partner (KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi): He has graduated from Business Administration (English), Istanbul University in 1996. He is Certified Public Accountant (SMMM) at Istanbul Association of Independent Accountants and Financial Experts. He has an Independent Audit License of Capital Markets Board of Turkey and has an Independent Audit License of Turkish Treasury.

III. Activities of the Committees Reporting or Assisting to Board of Directors under Risk Management Systems Pursuant to the Regulation on the Internal Systems of Banks and Internal Capital Adequacy Assessment Process; Names and Surnames of Their Chairmen and Members and Information about Their Principle Duties

Audit Committee

Permanent Members: *Belma Özmen (Chairperson of the Committee), Alper Kılıç.*

The Audit Committee had been established based on the Board of Directors' resolution dated 31.07.2006 and numbered 10/2006 in order to assist the Board of Directors in carrying out its audit and supervision activities. The Audit Committee submits its evaluations in the form of a report to the Board of Directors on a quarterly basis.

Remuneration Committee

Permanent Members: *Tracy Jayne Clarke (Chairperson of the Committee), Alper Kılıç.*

The Committee was established in order to perform its duties as assigned to it by the Board of Directors and pursuant to the regulation regarding the "Principles on Corporate Governance of the Banks" dated 1 November 2006 and numbered 26333. The Committee meets at least twice a year.

Corporate Governance Committee

Permanent Members: *Tracy Jayne Clarke (Chairperson of the Committee), Karin Flinspach.*

The Committee was established in order to perform its duties as assigned to it by the Board of Directors and pursuant to the regulation regarding the “Principles on Corporate Governance of the Banks” dated 1 November 2006 and numbered 26333. The Committee is responsible to follow up the compliance of the Bank with corporate governance principles. The Committee meets at least once a year.

Executive Committee

Permanent Members: *Kaşif Atun (Chairperson of the Committee) – General Manager, Fatih Sevimli – Risk Manager, Diğdem Tümtürk Güner – Head of Legal & Compliance and Internal Control, Erel Seren - Head of Transaction Banking, Francois Massena – Financial Reporting Manager, Bike Tarakçı – Head of HR, Leya Dalva – Banking Operations Manager, Şirin Erdoğan – Country IT Manager.*

Given the responsibilities and duties of the units and committees that should be legally established with the authorities of the Board of Directors, based on the authority granted by the Board of Directors, it conducts the day-to-day operations, management and control activities of the Bank in compliance with the laws, regulations, procedures and policies of the Standard Chartered Group. The Committee meets at least eight times a year.

Executive Risk Committee

Permanent Members: *Kaşif Atun (Chairperson of the Committee) – General Manager, Fatih Sevimli – Risk Manager, Diğdem Tümtürk Güner – Head of Legal & Compliance and Internal Control, Francois Massena – Financial Reporting Manager, Bike Tarakçı – Head of HR, Leya Dalva – Banking Operations Manager, Şirin Erdoğan – Country IT Manager.*

The Committee was established to analyze the Bank's risks, deficiencies or defections, discuss the necessary precautions and effectively manage the Bank's risks by reporting to the Board of Directors in a timely and reliable manner. The Committee meets at least six times a year.

Asset & Liability Committee

Permanent Members: *Kaşif Atun (Chairperson of the Committee) – General Manager, Fatih Sevimli – Risk Manager, Francois Massena – Financial Reporting Manager.*

The Committee was established in order to provide advisory to the Board of Directors for the Bank to have a sound balance sheet that supports the operations and act in line with the Group's policies with respect to Banking Law No.5411, other regulatory legislations and within the laws of the Republic of Turkey. The Committee meets 10 times a year or more if requested by the Chairperson of the Committee.

IV. Information about the Participations of Members to the Committees Mentioned in Part III, Audit Committee and Board of Directors During the Year

According to Article 19 of the Articles of Association, resolutions in the Board of Directors shall be adopted on the basis of simple majority of the members present in the meetings. Unless any Board member asks for a discussion, a resolution on a proposed specific agenda item may be adopted when and if other members give their written consent to the proposed item. This principle is complied within all Board resolutions.

The Audit Committee is formed of two non-executive members of the Board Directors. Internal Audit, Compliance and Internal Control, Risk Management Units report to the Board of Directors through the Audit Committee on a quarterly basis. Internal Audit Activity Report is submitted to the Audit Committee and then submitted to the Board of Directors by the Audit Committee. It is sent to the BRSA within ten days from the date of submission to the Board of Directors. The Committee ensures that risks are regularly monitored on a timely basis in line with the Bank's operations and necessary measures are adopted accordingly. Results of the independent audit as well as quarterly and annual independent audit reports were evaluated and doubtful issues were resolved. The Committee has reviewed the assessments by the independent auditor via regular meetings and necessary measures were adopted in order to check the compliance of the Bank's accounting practices in accordance with the Act and other applicable legislation. It carried out risk assessments with relevant units in relation to support services that the Bank has retained from the third parties and submitted the results to the Board of Directors.

The Audit Committee was held four times in 2019 in order to review financial reports and annexes while accuracy and compliance to the accounting standards were evaluated.

Members of those committees, which are set up to assist the Board of Directors (committees referred to and described in section B-III) attended each meeting on a periodic basis and/or whenever it turned out to be necessary. The attendance by the members of the Board of Directors and the Committee members to the meetings was at satisfactory level. Resolutions adopted by the Committees were soundly documented in the form of meeting minutes.

V. Summary Report of Board of Directors Presented to the General Assembly

Dear Shareholders,

Profit & Loss Statements, Board of Directors' Report and Auditors' Report relating to the financial year of 2019 are presented for your examination and approval.

The comparison of the main figures of our financials and ratios with those of previous year end is as follows:

- The size of assets increased by 20.61%.
- Equity reached TRY 98,273 thousand.
- Liquid Assets increased by 21.34% compared to previous year and constituted 94.54% of total assets.
- Our capital adequacy ratio is 105.32% whereas it was 104.43% as of 31.12.2018.
- Return on assets, which was 29.18% in 2018, moved down to 17.95% in 2019.
- Return on equity is realized as 25.01%.
- The paid-up capital is TRY 40,126 thousand.
- The current year profit is realized as TRY 19,661 thousand.

Yours faithfully,

Board of Directors

VI. Information on Human Resources Practices

The duties of the Human Resources Unit are to form implement Standard Chartered Yatırım Bankası Türk A.Ş.'s Human Resources strategy in accordance with the Bank's strategy.

Human Resources's duty is to select and employ correct people for correct positions. The selection and employment process are realized by considering technical and personal skills of the person, which should be suitable for the related position.

All our employees are evaluated by the HR once a year by considering their work experience, education level, technical and operational knowledge and performance. Promotion or rotation decisions are taken commensurate with these evaluations.

Employees are paid by gross salaries on a monthly basis. Upon yearly appraisals, the Bank's management decides on bonus payments. This bonus payment is under the Bank's management discretion and does not bear any contractual undertaking. Salary increases are executed annually in the form of merit or promotion related adjustments.

The gross amount of the bonus payments made in March 2020 for the 2019 performance year is TRY 2,876,005 (The gross amount of the bonus payments made in 2019 for the 2018 performance year was TRY 2,365,06 5).

As of 31 December 2019, benefits provided to the Bank's key management amount to TRY 1,858,101 (31 December 2018: TRY 1,372,874.05).

As of 31 December 2019, the number of incumbents is 29.

Personnel Remuneration Policy

The Remuneration Committee:

The Bank's Remuneration Committee consists of two Board members who do not have executive duties. The Committee meets bi-annually and whenever deemed necessary by the Chairperson.

The Committee was formed to assess the framework and policies for remuneration in line with the Regulation on Principles on Corporate Governance of the Banks dated 1 November 2006 with its amended version on 9 June 2011, the Guidance on Best Remuneration Practices of the Banks dated 31 March 2016 and other related guidances issued by the BRSA to follow the best practices in this realm. The Committee's main roles and responsibilities are as follows.

- Conducting necessary audit and monitoring on whether remuneration policies and procedures are in line with the related laws and regulations
- Reviewing and updating, if necessary, the remuneration policy at least once a year to maintain its compliance with the local laws and regulations
- Maintaining fair remuneration practices for the Board members who have executive roles or who do not have executive roles, ensuring those members who do not have executive roles receive stable/pre-determined level of revenue

- Continuously monitoring if any related standards, policies or procedures need to be updated, taking necessary actions to update them if needed
- Ensuring compliance with the Regulation on Principles on Corporate Governance of the Banks and the Guidance on Best Remuneration Practices

The basic principles of the remuneration policy apply to all employees of the Bank. As per the continence principle of the Bank; the Board members, top management and other employees who are deemed to have a considerable impact on the Bank's risk profile are all presumed as special employees.

The Bank's Remuneration Approach

The Bank's remuneration policy is supported with the below principles in accordance with the effective risk management and strategy:

- Competitive remuneration opportunity that enables us to attract, motive and retain our colleagues
- A clearly defined performance management framework that ensures employees have clear objectives that are aligned to the Bank's strategy, and receive ongoing feedback
- Clearly defined remuneration principles including clear personal objectives and feedback. Fixed and variable pay and benefits are determined in conjunction with the performance of individual and business they work in
- Support to colleagues with flexible working practices that balance both business needs and their personnel circumstances
- An appropriate mix of fixed and variable compensation and level of fixed compensation based on an employee's role and the business' risk profile
- Variable remuneration that recognises the achievement, conduct, behaviours and values of each individual, which ensures reward as aligned to the Bank's performance
- Remuneration is fair and transparent. Equal pay activity is undertaken as part of the pay review process globally, with reference to the equality standards to which we have signed up
- A core level of benefits for all employees that protects our reputational risk and ensures the safety of our employees

VII. Information on Transactions Executed with the Risk Group to Which the Bank is Included

The banking transactions realized with the group companies are carried out in accordance with the legislations. These transactions are for commercial purposes and are executed at market prices. The transactions with group companies and the shares within our total credit risk are as follows:

	31.12.2019	31.12.2018
	%	%
Share in total placements	0	0
Share in total borrowings	0	0
Share in total non-cash loans	0	0

VIII. Information on Support Service Providers and Types of Support Services

Types of support services taken are generally on the field of Information Technologies and all existing technical support services are compliant with the regulation.

The types of technical support services taken and support service providing companies are as follows:

Subject of Support Service	Support Service Providing Company
Internext, main banking system	Intertech Bilgi İşlem ve Pazarlama Ticaret A.Ş.
Support of Business Continuity Plan and Disaster Recovery Centre	IBM Global Services İş ve Teknoloji Hizmetleri ve Tic. Ltd.Şti.
Archiving	Iron Mountain Arşivleme Hizmetleri A.S.
Information Systems Technical Support	Standard Chartered Global Business Private Limited
Operational Services - Screening of Payment Messages	Standard Chartered Global Business Services Private Limited
Operational Services – KEP and EYP Services	Intertech Bilgi İşlem ve Pazarlama Ticaret A.Ş.

C. FINANCIAL INFORMATION AND ASSESSMENT ON RISK MANAGEMENT

I. Report Prepared by External Auditors

Please see the Annex.

II. Evaluation of the Audit Committee on the Functioning of Internal Control, Internal Audit and Risk Management Systems and Their Activities During the Accounting Period

On July 31, 2006, the Audit Committee has been constituted in accordance with the Article 24 of Banking Law No.5411. Audit Committee performs in the framework of the principles of “Audit Committee Regulation” approved by the Board of Directors.

The structure of our Bank’s Internal Control, Internal Audit and Risk Management Systems has been re-organized by taking into consideration the segregation of duties in accordance with the provisions of the regulation. This structure complies with the scope of our activities and is effective to respond to the changing conditions.

Internal Audit, Internal Control and Risk Management accomplished their tasks independently from each other but in a simultaneous way and reported to the Board of Directors.

In order to carry on the activities of Internal Audit, Internal Control and Risk Management Systems of the Bank, the Board of Directors took the necessary precautions.

Internal Audit Unit’s risk-based Audit Plan and Risk Matrix with details were reviewed and submitted to the Board of Directors’ approval by the Audit Committee. In compliance with our Bank’s structure and size, Internal Audit activities, including IT audit activities, are carried out by Head of Internal Audit. In terms of achieving the purpose of the internal audit system, all necessary measures were taken by the Board of Directors on the audit of all activities and units of the Bank without limitation by the internal audit unit. Within the scope of internal audit activities in 2019, nine audit activities, including information systems audit in accordance with the internal audit plan and audits related to the Management Declaration as per BRSA’s communiqué on “Management Declaration” numbered BSD.2010/3, are carried out. The findings of internal audits and external auditors or legal authorities are regularly monitored and their results are reported.

Our internal control activities comprise fundamental control fields and are the integral parts of the daily activities. The personnel responsible for determining, measuring and reporting of market, credit, compliance and operational risks exist in the units of Internal Control and Risk Management. Risk management process is composed of defining the risks, their measurement, risk policies and constitution of application principles, analyses of risks and follow-up, reporting and auditing phases, all determined by the executive management and risk management unit and approved by the Board of Directors of the Bank.

The Bank’s risk management mission is to undertake the risks compliant with the policies and procedures of the Group and to increase the profitability level.

III. Independent Audit Report

Please see the Annex.

IV. Financial Statements and Information on the Financial Structure

Please see the Annex.

V. Assessment on Financial Position, Profitability and Debt Payment Capability

- Total equity reached TRY 98,273 thousand and increased by 25.4% compared to previous year.
- Our return on equity is realized as 25.01%.
- Total assets reached TRY 109,522 thousand by an increase of 20.61%.
- The share of liquid assets within the balance sheet is 94.54% (same as in previous year).
- The profit of 2019 is realized as TRY 19,661 thousand.

VI. Information on Risk Management Policies as per Risk Types and The Explanations of Risk Management

- **Credit Risk:**

It is the potential for loss due to failure of a counterparty to meet its obligations to payback the Bank in accordance with the agreed terms.

Standard Approach is applied for the calculation of capital adequacy level for credit risk in terms of Basel II.

The Bank's risk appetite is determined by the Board in terms of credit risk. The Board has not delegated its power of setting up credit limits to a sub credit committee. Any credit proposal/application for a client is submitted to the Board for approval. Credit limits approved by the Board are allocated to the clients.

All risks/limits are reviewed at least once a year. Clients belonging to the same risk group are analysed/reviewed together taking into consideration total exposure/limits on the group.

The breakdown of credit portfolio is continuously monitored by the Risk Management Unit in terms of country, sectors, business groups/customers, maturity profile, collaterals and credit grades.

- **Country Risk**

Country Risk refers to the potential for loss caused by political or economic events in a country. The definition of country risk consists of three parts: (a) Domestic Macroeconomic Risk: Unstable increased risk of lending in an economic or political environment; (b) Transfer Risk: failure to provide or solicit the use of strong foreign currencies. In other words, the potential for loss if the government restricts foreign exchange transactions to prevent money from leaving the country. (c) National default risk: risk of failure to meet obligations.

Country risk is measured in accordance with the Bank's Country Risk Appetite Statement. It is governed by the Country Risk Type Framework that sets out policies and procedures for General Manager, as the first line of defence.

- The General Manager, as the first line of defence, is responsible for the implementation of the country risk policy, identifying and measuring the related country risk factors, allocating approved limits to the business lines if the country is in a "refer" status and reporting any non-compliance to the Second Line of Defence. The Country Risk Manager, as the second line of Defence, is responsible for the Country Risk Framework and monitors the use of country risk limits and reporting any breaches to the Executive Risk Committee, the Board of Directors and the Group Country Risk Team. **Operational Risk**

Potential for loss arising from the inadequate or ineffective internal processes, failure of people, systems or technologies or the impact of external events including legal compliance risks.

Basic Indicator Approach is applied for the calculation of capital adequacy level for Operational Risk in terms of Basel II.

The Bank applies Basic Indicator Approach for the calculation of capital adequacy ratio in terms of operational risk. However, for global risk follow-up purpose, the Bank uses the operational risk matrix developed by the main shareholder. The matrix uses Basel II categories to categorize existing and potential operational risks for the Bank's end to end processes. The impact (financial and reputational) and probability of each risk are evaluated within this matrix with a view to controlling risks. The Bank's operational loss data are evaluated in terms of concentration, reasons and effect types are gathered in a loss database tool developed by the main shareholder in compliance with Basel II standards.

The Bank controls its operational risks at three stages ("lines of defence") to ensure such risks have no material impact on the Bank's profitability and/or cause no material damage to the Bank. Beyond this, the Bank seeks to minimise its exposure to operational risk subject to cost and risk/reward trade-offs.

In terms of operational risk, the first line defence is all employees who have any level of supervisory responsibility since they are required to ensure the effective management of operational risks within the scope of their direct organisational responsibilities.

The second line of defence for operational risk comprises the Risk Manager and CFO/COO and other operational risk owners, supported by their respective control functions. In addition, the Internal Control Function, as part of the permanent control framework performs frequent control reviews on the existence of the first line control owners and their effective functioning of these controls.

The third line of defence comprises the independent assurance provided by the Internal Audit function, which has no responsibilities for any of the activities it examines.

- **Conduct Risk**

Conduct of business or 'conduct' is a term that is used in a broad number of ways across the financial services industry. At its broadest, good conduct is the appropriate execution of business, by the Bank or any individual acting on its behalf, in accordance with our strategic intent, risk management principles and risk appetite. More narrowly, it refers to specific regulations designed to achieve fair outcomes for customers and the effective operation of markets.

Good conduct is evidenced through disciplined adherence to our overall framework of systems and controls outlined in the Risk Management Frameworks and the standards of individual behaviour set out in the Code of Conduct. Code of Conduct defines the standards of behaviour that all staff are required to abide by. The Code of Conduct is aligned with and reinforces the Risk Management Principles and shapes individual behaviour.

- **Compliance Risk**

Compliance risk refers to the potential for economic loss or the possibility that the clients, stakeholders or market reliability of the Bank would be affected badly out of failure to comply with laws and regulations.

Compliance Risk Type Framework sets the approach in the management of compliance risk. The Head of Legal & Compliance and Internal Control is responsible for Compliance Risk Type Framework. The Compliance Function maintains policies and procedures which put forward the standards and controls that each employee of the Bank need to take into account

in order to ensure continuous compliance with the laws and regulations. The Head of Legal&Compliance and Internal Control ensures all related policies are implemented as planned to mitigate the risks by monitoring the execution of the control frameworks and attestations gathered from the related departments. All medium level risk factors together with the action plans to mitigate them are discussed at the Executive Risk Committee. If any risk mitigating action cannot be taken against a risk factor, the Executive Risk Committee could accept/confirm the existence of and the exposure to that risk.

- **Market Risk**

Market risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices.

Standard Approach is applied for the calculation of capital adequacy level for Market Risk in terms of Basel II.

The Board of Directors determines the risk appetite and sets market risk limits to ensure that the Bank's market risk exposure is aligned with its risk appetite. The foreign exchange and interest rate exposure are measured and controlled in terms of positions, Value at Risk and stress tests by the Risk Management Unit.

Market risk limits are reviewed at least annually, taking into consideration the business strategy and risk appetite.

- **Information and Cyber Security Risk**

Information and Cyber Security (“ICS”) risk is the risk of failing to identify, assess, and protect the confidentiality, integrity, and availability of information assets from internal or external threats. Threat categories include: misuse, malware, hacking, social engineering, error, physical, denial of service attacks, diversion of funds through payment channels and theft of confidential information.

Impacts of ICS risks include:

- Confidentiality impacts such as internal data leakage and external supplier data leakage,
- Integrity impacts such as payment integrity/fraud and toxic access,
- Availability impacts such as system resilience, disruption, and distributed denial of service attacks,
- Financial position impacts such as direct financial loss of cash and regulatory sanctions (e.g. increased capital requirements),
- Client servicing ability impacts such as lack of customer access in front-office and lack of service delivery in the back-office (e.g. payments),
- Competitive advantage impacts such as cyber espionage, and malicious general publication of company positions and
- Brand image/customer trust impacts such as increasing level of press coverage, public interest, and regulatory scrutiny for information and cyber security events.

BAU management of ICS risks:

The Banks' ongoing efforts to Protect, Enable, Respond and Engage with information and cyber related issues are benchmarked against industry best practices outlined in the National Institute of Standards and Technology ("NIST") Cyber Security Framework ("CSF"). The ICS risk management strategy includes:

- Governance and management of the organisational structure to prioritise and focus on ICS risks with a dedicated and independent Country Information Security Officer that reports into the Executive Risk Committee and who works closely with the Group Information Technology and Operations Division, notably the Chief Information Officers, Technology Services, Governance & Change groups and Technology Information Security Office.
- Layered Defences with security controls to mitigate threats of entry and exit of the Bank's critical information and data.
- Incident Management Framework to deal with ICS breaches with an established Security Incident Response Team to provide consistency to the incident management.
- Cyber Crisis Management & Stress Testing with Cyber Crisis Exercises at the Group, Region, Country and Function levels involving various scenarios to improve how the Group manages a crisis-level event and external penetration and security system testing to benchmark protective measures and identify areas for improvement.
- Reporting and Awareness to provide greater Board-level and Management Team governance and ownership of ICS issues.

- **Liquidity Risk**

Liquidity risk is the potential for loss in case the Bank, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due or can access these financial resources only at excessive costs.

Funding risk is defined as the potential for actual or opportunity loss in case the Bank does not have stable or diversified sources of funding in the medium and long term to enable it to meet its financial obligations in pursuit of its desired business strategy or growth objectives.

Asset and Liability Management Committee (ALCO) is responsible for managing the Bank's liquidity position within regulatory liquidity limits.

ALM responsible ensures that intraday liquidity and risks are actively managed to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and in compliance with the regulations.

- **Reputational Risk**

Reputational risk is the potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions. Practically, reputational risk can arise from the Bank's strategic choices. It will also arise from the failure to mitigate effectively any of the Group's principal

risk types. It may also arise from the failure to comply with environment, social and governance standards and failure to meet key stakeholders' expectations.

The Bank's Reputational Risk Type Framework sets the approach for the management of reputational risk. This framework aims to protect the reputation of the Bank and prevent any sort of activities which might damage the Group's reputation.

The Risk Manager is responsible for Reputational Risk Type Framework and directs all functions and businesses for the effective and proactive management of the relationships with all stakeholders including the transactions with the clients and suppliers in order to draw enough attention to the Bank's reputation in all decision-making processes.

Although exposure to reputational risk in the banking sector is inevitable, the Bank relies on strong risk management processes to manage corporate risk culture against reputational risk. This is an inherent part for every activity of the Bank and its way of doing business. The Bank gives the required consideration to reputational risk that it might face and all factors that would be resulted in reputational loss.

The management does not approve any transaction which could damage its reputation. The basic principle of the Bank is to realize the transactions with reliable parties within the legal framework and in line with the internal procedures. The protection of the Bank's reputation takes priority over all activities including revenue generation activities at all times.

- **Financial Crimes Risk**

Financial crimes risk is defined as potential for being subject to legal penalties, financial loss or damage to reputation as a result of non-compliance with laws and regulations on international sanctions, combatting against money laundering, corruption and bribery.

The Financial Crimes Risk Type Framework covers the Bank's approach for financial crimes risk, which is one of the Bank's principal risk types. The Bank measures financial crimes risk with the Group Risk Assessment and implements policies, standards and control frameworks to manage financial crimes risk within the risk appetite.

Financial crimes risk has three risk sub-types. Each risk sub-type is managed through policies, standards and control frameworks.

Risk Type	Explanation
Anti-Corruption and Bribery	The potential for being subject to legal penalties, financial loss or damage to reputation as a result of non-compliance of the SCB Group or of the people associated with the Group with related laws and regulations in the realm of anti-corruption and bribery.
Anti-Money Laundering and Counter Terrorism	The risk of involving into a transaction related to money laundering or getting involved by a customer indirectly to such transactions. This also includes the risk of any perception of inadequacy of the Bank's risk based control frameworks which are used to prevent money laundering or identify it.

Sanctions	The risk of involving into a transaction which creates a breach against the international sanction regulations or getting involved by a customer indirectly to such transactions. This also includes the risk of any perception of inadequacy of the Bank's risk based control frameworks which are used to prevent non-compliance with the international sanction regulations.
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VII. Information on the Ratings and Their Implications Given by the Rating Institutions Which were Authorized Based on the Regulation on the Principles Relating to the Activities and Authorization of Rating Agencies

There is no separate rating note assigned for the Bank. As of 31 December 2019, the rating notes of Standard Chartered Bank and Standard Chartered PLC assigned by the rating agencies are listed below.

	Moody's	Fitch	S&P
Standard Chartered Bank	Short-term bank deposits rating: P-1	Short-term credit rating: F1	Short-term credit rating: A-1
	Senior unsecured rating: A1	Long-term credit rating: A+	Long-term credit rating: A
Standard Chartered PLC	Senior unsecured rating: A2	Long-term credit rating: A	Short-term credit rating: A-2
			Long-term credit rating: BBB+

VIII. Summary of Financial Information for the Five-Year Term, Including the Current Reporting Period

	31/12/2015	2015-2014	31/12/2016	2016-2015	31/12/2017	2017-2016	31/12/2018	2018-2017	31/12/2019	2019-2018
(thsd TRY)		Change		Change		Change		Change		Change
Liquid Assets	73,777	%4.41	75,282	%2.04	78,532	%4.32	85,330	%8.66	103,537	%21.34
Loans	-	%0.00	-	%0.00	-	%0.00	-	%0.00	-	%0.00
Other Assets	5,439	-%0.38	5,376	-%1.16	5,166	-%3.91	5,474	%5.96	5,985	%9.34
TOTAL ASSETS	79,216	%4.07	80,658	%1.82	83,698	%3.77	90,804	%8.49	109,522	%20.61
Other Liabilities	9,361	%8.62	8,668	-%7.40	9,352	%7.89	12,425	%32.86	11,249	-%9.46
Equity (Except Profit)	89,542	%1.28	89,823	%0.31	90,330	%0.56	74,996	-%16.98	76,552	%2.07
Net Profit	(19,687)	-%5.82	(17,833)	-%9.42	(15,984)	-%10.37	3,383	-%121.16	21,721	%542.06
TOTAL LIABILITIES	79,216	%4.07	80,658	%1.82	83,698	%3.77	90,804	%8.49	109,522	%20.61
SELECTED RATIOS										
ROE	%6.15	%40.73	%8.93	%45.21	%10.61	%18.90	%51.08	%381.35	%25.01	-%51.04
ROA	%5.11	%37.27	%7.31	%43.23	%8.52	%16.53	%29.18	%242.45	%17.95	-%38.49
CAT	%129.64	%37.87	%108.23	-%16.51	%104.14	-%3.78	%104.43	%0.28	%105.32	%0.85