PREVENTION OF LAUNDERING PROCEEDS OF CRIME AND FINANCING OF TERRORISM
COMPLIANCE POLICY

Within the scope of fighting against Laundering Proceeds of Crime, Financing of Terrorism and Bribing Foreign Public Officials (LPC/FT); taking into account the damage these cause in social life, Türkiye Halk Bankası AŞ approaches the compliance with legal and international regulations within the framework of social responsibility and attaches great importance to this effort.

PURPOSE

Determining strategies, internal controls and measures, operational rules and responsibilities of our Bank, aimed at provision of compliance of our Bank to its obligations relating to the prevention of Laundering Proceeds of Crime, Financing of Terrorism and Bribing Foreign Public Officials (LPC/FT), to protect its national and international reputation; by evaluating customers, transactions and services with a risk based approach to reduce risk that our Bank might be exposed to; and increasing awareness of our employees on these issues.

Standards specified in this policy comprise the minimum requirements created by the legislation in force and aim to protect our Bank, our employees and our customers from exploitation on Money Laundering and the Financing of Terrorism Crime.

Our Board of Directors is ultimately responsible in ensuring the fulfilment of the Bank’s "AML/CTF Prevention" obligations under the 5549 Law on the Prevention of Money Laundering.

SCOPE

Our policy relating to the prevention of AML/CTF applies to all domestic and, to all foreign branches, representative offices provided that the legislation of the relevant country is applicable, offices and other service units and, Head Office departments and other similar units such as agencies and commercial representatives.

Furthermore, it is pursued that policies and practices aimed at prevention of AML/CTF are also established by our financial affiliates.

LEGAL BASIS

The Law on Prevention of Laundering Proceeds of Crime (No. 5549) and the Law on the Prevention of the Financing of Terrorism (No. 6415) and the Regulations and Communiqués published relating to this Laws constitute the legal basis of our Bank’s policy on prevention of LPC/FT. Also the recommendations, principles, standards and guidelines provided by national and international regulatory institutions and organizations, are taken into consideration.

The Financial Crimes Investigation Board (MASAK) directly reports to the Minister of Finance; and the duties and powers of MASAK are to develop policies and strategies, to prepare law, by-law and regulation drafts in accordance with the policies determined, to exchange views and information in order to prevent laundering proceeds of crime.
Financial Action Task Force (FATF), which was established in 1989 within the body of OECD, aims to devise the internal legal systems on preventing Money Laundering and reconcile regulations, strengthen the role of financial system and build the cooperation between the members. Since 1991, Turkey is member of FATF, of which the recommendations are obligatory for the member countries.

According to the 5237 TCK 282, the **Proceeds of Crime** is defined as any form of money/wealth/assets/interest acquired from the crimes that require punishment of minimum 6 months of imprisonment. **Laundering offence** means a person who transfers abroad the proceeds obtained from an offence requiring a minimum penalty of six months or more imprisonment, or processes such proceeds in various ways in order to conceal the illicit source of such proceeds or to give the impression that they have been legitimately acquired.

The money laundering process consists of three stages:

- **First stage;** conversion of the illegally obtained monies or other valuables into noncash forms and injection to financial system. – **Placement**

- **Second stage;** separating the proceeds of criminal activity from their source through the use of layers of complex financial transactions – **Layering**

- **Third stage;** placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds – **Integration**

Through “The Law No.6415 on the Prevention of the Financing of Terrorism” within the scope of effective fight against terrorism and financing of terrorism; the principles and procedures have been determined for implementing the “International Convention for the Suppression of Financing of Terrorism” dated 1999 and the United Nations Security Council Resolutions related to combating terrorism and the financing of terrorism, for establishing financing of terrorism offence, and for freezing of asset with the aim of preventing financing of terrorism.

**COMPLIANCE PROGRAM**

Halkbank has established Compliance Program, including measures aimed at preventing Laundering and Terrorism, in order to comply with national legislation and international standards and fulfil control activities in this scope.

The compliance program shall cover the following measures:

- Developing AML/CTF policy and procedures
- Carrying out risk management activities within scope of preventing laundering proceeds of crime and financing of terrorism to define, grade, monitor, assess and reduce the risks the Bank may be exposed to
- Carrying out monitoring and controlling activities, within the scope of the Bank's size of business enterprise, business volume and the nature of the transactions it conducts
- Assigning compliance officer and establishing the compliance unit
- Carrying out training activities within the scope of AML/CTF legislation
- Carrying out internal audit activities within the scope of the Bank’s AML/CTF policy and procedures

Risk management, monitoring and controlling activities shall be carried out by the Compliance Officer/the Compliance Unit.
Internal audit activities shall be carried out by the Board of Inspectors.

Within the scope of Bank Policy the matters related to rules and procedures are specified in the AML/CTF Directive.

In defining the AML/CTF procedures, the assignment and authorisation shall be made in such a manner that the staff responsible for monitoring, controlling and supervising the transactions and workflow within the Bank according to risks is not the same staff as those responsible for carrying out the transaction.

It is compulsory that the Bank notify the AML/CTF policy to the related staff by taking their signatures.

**RISK MANAGEMENT**

Risk management includes in-house measures and operational rules. In line with the AML/CTF legislations and international standards relating to "Know Your Customer", customer acceptance policy was created to ensure compliance with the principles.

**Customer Identification:** Bank takes all precautions in order to know its real person and legal entity customers in terms of social, financial and identity information, and for that purpose, to obtain all kinds of documents, particularly those relating to identification, and to confirm the authenticity of such documents. Obtaining essential documents from the customers who has a permanent business relationship with our Bank is not considered as sufficient. Customers are monitored depending on their risk degrees, their transactions are controlled and the alterations in their information are followed up.

- If identification or obtaining of sufficient information about the purpose of the business relation is not possible, the customer cannot be accepted and required transaction cannot be performed.
- In case of having suspicion about the sufficiency and accuracy of customers’ personal identity information and inability to make essential verification and confirmation, the customer relation shall be terminated.
- Customer accounts are opened for the real name-surname or title of the legal persons. Accounts cannot be opened by using other names, anonymous names or nicknames.
- Within the scope of the necessity that customer relationships should be based on mutual information exchange, trust and full disclosure, persons and legal entities, who avoid or are unwilling about filling in the customer information forms or who provide deceptive, unconfirmable information, are not accepted as customers.
- The customers who are placed on the sanction list published by the international authorities and the internal black lists are not accepted as customer.
- Unless clearly authorized with a valid documentation and purpose and nature of opening account is not understood, Third parties’ requests about opening accounts on behalf of one or more person cannot be accepted. (Excluding the accounts to be opened on behalf of persons or minors under guardianship or custody)
- If there is a strong suspicion that the persons or legal persons, with whom a business or customer relationship will be established did not gather their assets through legal means, or if there are information or documents certifying such a case, banking relationship with such natural or legal persons is not initiated, their guarantees or warranties are not accepted.
- The Bank can not establish correspondent relationship with shell banks and financial institutions working with shell banks. (*A bank which does not have any physical office in any country, does not employ full time staff and is not subject to control and authorization of an official authority in terms of banking transactions and registrations*)
• The Bank can not establish customer relationship with shell companies. *(The company having no trade-service or manufacturing activity and is generally established in the off-shore centres and exists only on paper)*

• The Bank should ensure that the correspondent relationship does not include the use of payable-through account. *(The type of account that is opened in a financial institution located in Turkey within the scope of correspondent relationship by a financial institution located abroad, and that enables customers of the foreign financial institution to make direct transactions)*

**Identification of Beneficial Owner:** Beneficial owner is defined as having ultimate control over the natural persons who conduct the transactions, or natural persons, legal person or unincorporated firms on whose behalf transactions are conducted. The Bank should take necessary measures in order to detect the beneficial owner.

**Monitoring the Customer Profile and the Transactions:** The Bank should follow up continuously the transactions conducted by their customers whether they are in compliance with the information regarding the customer's profession, commercial activities, business history, financial status, risk profile and sources of funds within the scope of permanent business relationships and keep up-to-date information, documents and records regarding the customer. If the purpose of establishing business relation with our Bank declared during the evaluation of customer acceptance period is not parallel with the transactions and activities of the customer, the customer relationship should be evaluated again.

Whether the accounts are actually utilized by the account owner is monitored continuously.

**Risk Areas and Grading:** The objective of the risk management policy is, within scope of preventing laundering proceeds of crime and financing of terrorism, to define, grade, monitor, assess and reduce the possible risks the Bank may be exposed to.

In line with risk-based approach, four risk areas have been designated; **customer, product/service, sector and country/region** risk. On the basis of designated risk areas, our Bank classifies the customers, products, sectors and countries into below mentioned groups.

- Low Risk
- Medium Risk
- High Risk
- Very High Risk

The **customer risk** means that our bank is abused by the customer or the person acting on behalf of customer who is active in money laundering process or financing terrorism.

High risk customers:

- Charity corporations
- PEP s

Non-face to face products and services, cash transactions that is difficult to follow up, new products served with developing technologies involves **product and service risk** because these products have AML/CTF risk.

The **sector risk** that our Bank would be abused as a consequence of the fact that the customers working in business lines or sectors which conduct intense cash usage, purchase of high-value goods or international fund transfers.
The Bank may be exposed to **country risk** as a consequence of the customers or transactions in relation to residents or nationals of countries which do not implement FATF recommendations or which implement them incompletely and which are located on illegal drug production–distribution routes, or where rates of crime, such as smuggling and terror, are high and fraud and bribery are common, which are anti-democratic, cross-border centres that constitute a centre of attraction for the needs of storage of funds which are obtained through organized crimes as a result of banking secrecy provided by local banks and other financial institutions, tax advantage and judicial immunity.

**Simplified Measures:** The customers/products/transactions specified in the MASAK General Communiqué no. 5, published in the Official Gazette, are considered as low risk customers/products/transactions after determining that they do not bear AML/CTF risk and can be taken simplified measures in terms of customer due diligence.

**Enhanced Measures:** Enhanced measures are applied to the customers/products/transactions which are considered as high risk customers/products/transactions in our Implementation Directive.

**MONITORING AND CONTROL**

Our main goals are protecting the Bank against AML/CTF risk and controlling whether the transactions comply with laws and applicable regulations as well as the Bank's policies and procedures.

Compliance Unit is responsible for monitoring and keeping the risk assessment up to date. Compliance Unit establishes a central monitoring and control system in order to detect the AML/CTF risks and suspicious transactions. The banking transactions, particularly the ones in the high risk category, are monitored as per the set criterias and scenarios.

Monitoring and controlling activities include, but are not limited to, the following topics:

- Monitoring and controlling customers and transactions in the high risk category
- Monitoring and controlling transactions conducted with risky countries
- Monitoring and controlling complex and extraordinary transactions
- Controlling, through sampling method, whether the transactions exceeding a pre-determined limit are in accordance with the customer profile
- Monitoring and controlling related transactions exceeding the limit that requires customer identification when handled together
- Controlling, completing and updating the information and documents about the customer which have to be kept in electronic or written form and the compulsory information which have to be included in electronic transfer messages
- Monitoring whether a transaction conducted by the customer is consistent with the information about the customer's business, risk profile and source of funds on a permanent basis throughout the term of the business relationship
- Controlling transactions conducted by using systems which enable non face-to-face transactions
- Risk-based control of newly introduced products and services which may be exposed to abuse due to technological developments
- Checking customers and transactions against sanctions lists

In case of existence of any information, suspicion or an issue arousing suspicion regarding money and other assets that can be represented with money being involved in transactions executed or being attempted to be executed at our Bank or through our Bank, are obtained through illegal means or used for illegal purposes, or even though they are obtained through legal means, used by terrorist organizations and sponsors of terrorism or
for terrorist activities or is related with terrorism by any means, **suspicious transaction report** about the person(s) who executed the transaction must be made to MASAK.

Information about the executed suspicious transaction reports is not to be disclosed to anybody (even the parties) except authorized inspection personnel and courts in case of a legal proceeding.

Our Bank and its staff fulfilling their liability to report suspicious transactions in accordance with Law No. 5549 shall not be held responsible legally and penalty.

**INTERNAL AUDIT**

The purpose of internal audit is to give assurance to the Board of Directors on efficiency and adequacy of the whole Compliance Program. The Bank ensures that corporate policies and procedures are reviewed and inspected on annual basis by applying a risk-based approach in order to determine whether risk management, monitoring and control activities as well as training activities are adequate and effective, whether the risk policy is adequate and effective, and whether transactions are conducted in accordance with laws and applicable regulations, Bank policies and procedures.

The following activities are within the scope of internal audit activities:

- Defects, mistakes and abuses that are detected as a result of internal audit activities as well as opinions and recommendations to prevent their re-occurrence are reported to the Board of Directors
- Deficiencies detected in the course of monitoring and control studies, risky customers, services and transactions are included in the scope of the audit when determining it.
- While determining the units and transactions to be controlled, the business size and business volumes of the Bank shall be taken into consideration.

The activities within this context are executed by the Board of Inspectors. Internal audit results and the statistics are reported to MASAK on annual basis.

**TRAINING**

The purpose of the Bank’s training policy regarding AML/CTF is to ensure compliance with the laws and applicable regulations based on laws, establishment of a corporate culture by elevating the consciousness of responsibility of the personnel with respect to the Bank’s policies, procedures and risk-based approaches and updating the employees’ knowledge.

The training activities related to the prevention of money laundering and financing of terrorism will be carried out in accordance with the size, business volume and variable conditions of the Bank.

Training programs aimed at prevention of AML/CTF are prepared by the Compliance Officer in co-operation with the Training Department. The training program is conducted efficiently under supervision and coordination of the Compliance Officer.

The Compliance Department and the Training Department determine a sufficient number of trainers on this issue and ensure that they attain required knowledge and proficiency. Trainers are chosen among the trainers who attended MASAK education programs. The training process is repeated at certain intervals so as to include the legislation changes.
Information and statistics related to training programs are reported to MASAK on annual basis.

Training programs to be provided by the Bank to its personnel include, but is not limited to, the following subjects:

- Concepts of money laundering and terrorist financing
- Steps and methods of money laundering and case studies about the subject
- Legislation on AML/CTF
- Risk areas
- Corporate policy and procedures
- International regulations on AML/CTF
- Know your customer procedures
- Suspicious transaction reporting procedures
- Liabilities regarding maintaining and submitting records
- Liabilities regarding submitting information and documents
- Penalties to be applied in case of violation

MISCELLANEOUS

In accordance with Law No. 5549 article no.6 (periodical reporting); the transactions which our Bank participates in or mediates, exceeding the specified amount shall be reported to MASAK.

In accordance with Law No. 5549 article no.7 (providing information and documents); in case MASAK or authorised inspection personnel request, these documents and, in cases when necessary, the passwords, allowing for access to the information on our Bank's system, are provided.

Relating to the prevention of AML/CTF; the documents received and prepared, starting from the preparation date, books and records, starting from the last record date, documents relating to identification, starting from the last transaction date, documents relating to accounts, starting from the closing date of the account, are preserved for 10 years.