TÜRKİYE HALK BANKASI A.Ş. BOARD OF AUDITORS' REPORT

THIS IS THE BOARD OF AUDITORS' REPORT OF TÜRKİYE HALK BANKASI A.Ş. ON THE 2011 OPERATING AND FISCAL YEAR.

In the period from January 1, 2011 until December 31, 2011, our Board of Auditors took part in the Board of Directors meetings; examined the Bank's activities, Board of Directors resolutions, and the documents on which those resolutions were based within the framework of relevant laws, regulations and administrative provisions, and they ascertained the matters set forth below.

Overview

During 2011, it was observed that developed countries were decoupled from developing countries, developing countries including Turkey led the global growth in this decoupling, and developed countries were deeply affected by the global crisis that emerged in the USA and continued with the debt crisis in Europe. Since developed countries were obliged to accept the fact of high public debt and low growth and focus on structural policies, the balance between these two groups is not expected to change in the long term. It has been observed that our country stands out as one of the fastest-developing economies in this environment.

The Turkish growth tendency, seen as the compensation of losses in Gross Domestic Product (GDP) after the 2011 crisis period, increased during this period, and a great economic growth performance was achieved. With 8.2 percent growth in the third quarter and 9.6 percent growth in the first nine months of the period, GDP surpassed that of the Chinese economy, achieving 9.2 percent growth. Turkey became the world's fastest growing economy during the period in question.

During 2011, the Bank continued its growth activities by opening 61 new branches. The total number of its branches reached 771. The Bank hired 1,040 new employees to replace retired employees and to employ in newly-opened branches.
During 2011, the Bank took significant steps by founding a new subsidiary under the title of Halk Portföy Yönetimi A.Ş. Halk Finansal Kiralama A.Ş. and Halk Bank Skopje became subsidiaries of the Bank by acquisition.

Financial Standing

On the basis of our examination of the Bank's financial statements for 2010 and 2011, we have ascertained the following:

a-) At year-end 2010 the Bank's total assets were worth 72,942 million Turkish liras, which increased by 27 percent and reached 91,124 million Turkish liras as of year-end of 2011; at year-end 2010 the Sector's total assets were worth 1,006,667 million Turkish liras, which increased by 21 percent and reached 1,217,620 million Turkish liras as of year-end of 2011.

b-) Total loans, which stood at 43,559 million Turkish liras at end-2010, reached 55,236 million Turkish liras as of end-2011; total loan volume of the Sector, which amounted to 525,851 million Turkish liras at year-end 2010, reached 682,919 million Turkish liras as of year-end 2011, increasing by 29.9 percent. The Bank's loans increased in parallel with the Sector.

c-) The ratio of total loans/total assets, which is an indicator of asset quality, materialized as 60.6 percent at year-end 2011, and the Bank sustained its support for real sector. As a result of this, the ratio of loans to deposits augmented by 390 points and went up to 83.7 percent. As for the Sector, the ratio of total loans/total assets augmented 390 points and went up to 56.1 percent, and the ratio of loans to deposits augmented 1300 points and went up to 98.2 percent.

d-) Non-performing loans, which amounted to 1,758 million Turkish liras at year-end 2010, decreased to 1,669 million Turkish liras by 5,1 percent as of 2011 year-end, while the amount of special provisions decreased by 4.3 percent and fell from 1,465 million Turkish liras to 1,402 million Turkish liras. As of year-end 2011, the net amount of non-performing loans was 267 million Turkish liras. The ratio of non-performing loans/total loans decreased 100 points and fell from 3.9 percent to 2.9 percent. As for the Sector, the ratio of non-performing loans/total loans decreased 100 points and fell from 3.7 percent to 2.7 percent considering 2010. Although other banks' sales of their non-performing loans to the asset management companies caused a decrease in the ratio of non-performing loans/total loans, the Bank minimized its non-performing loans via collection from its customers.

e-) Total securities- which amounted to 19,281 million Turkish liras in 2010- went up by 16.2 percent to 22,395 million Turkish liras in 2011, and the total security volume in the overall sector- which amounted to 287,855 million Turkish liras in 2010- decreased by 1 percent to 284,982 million Turkish liras as of 2011 year-end.

f-) As of the end of 2011, total deposits rose to 65,983 million Turkish liras, up 20.9 percent compared with the year-end 2010 figure of 54,587 million Turkish liras. As of end of 2011, total deposits in the overall sector rose to 695,501 million Turkish liras, up 12.7 percent compared with the year-end 2010 figure of 617,037 million Turkish liras. While average demand deposits of the Bank in 2010 were 8,433 million Turkish liras, this amount increased by 47.9 percent and reached 12,475 million Turkish liras in 2011. As of the end of 2011, demand deposits in the overall Sector rose to 121,173 million Turkish liras, up 23.3 percent compared with the year-end 2010 figure of 98,252 million Turkish liras. A volumetric increase in demand deposits reduced the deposit cost of the Bank.

g-) Pursuant to the provision of the “Regulation on the Measurement and Assessment of the Liquidity Adequacy of Banks” enforced by the BRSA on January 1, 2006, the total liquidity adequacy ratio, which must be a minimum of 100 percent as of December 31, 2011, and second maturity tranche materialized as 109,72 percent, whereas the FX liquidity ratio, must be 80 percent, was realized at 113.03 percent, and the Bank has no problem with respect to liquidity and legally imposed liquidity ratios.

h-) As of the end of 2010 the total equity of the Bank was 7,445 million Turkish liras. At 2011 year-end, it went up by 16.1 percent to 8,640 million Turkish liras. While total equity in the overall Sector was 134,542 million Turkish liras at 2010 year-end, it went up by 7.5 percent to 144,595 million Turkish liras. As of the end of 2010, the return on equity of the Bank was 30.45 percent. At 2011 year-end it was realized at 25.43 percent. With this rate, the Bank achieved the rank of the sixth largest bank in the world in terms of return on equity on the "Top 1000 World Bank" list.

i-) At year-end 2010, the Bank booked a total of 526 million Turkish liras as net fee and commission income. In 2011, this figure increased by 38.5 percent and reached 728 million Turkish liras. The Bank's net profit for the period- which amounted to 2,010 million Turkish liras- rose by 1.7 percent to 2,045 million Turkish liras as of the end of 2011. At year-end 2010, net fee and commission income in the overall Sector was 9,078 million Turkish liras. As of the end of 2011, this figure increased by 17.4 percent and reached 10,657 million Turkish liras. Net profit for the period in the overall Sector was 22,116 million Turkish liras at 2010 year-end. It decreased by 10.3 percent to 19,847 million Turkish liras as of the end of 2011.

j-) At year-end 2010, the outstanding balance of the Bank's credit card risk exposure was 732 million Turkish liras. As of the end of 2011, it rose by 30 percent to 952 million Turkish liras. During this period, the Bank's market share rose from 1.69 percent to 1.76 percent. At year end2010, the outstanding balance of the Bank's credit card risk exposure was 43.6 billion Turkish liras. As of the end of 2011, it rose by 27 percent to 55.5 billion Turkish liras. The Bank has been making progress in credit cards. By being active in the Advantage card program- which the Bank failed to control adequate share of sectoral totals- and its marketing, an increase in the market share of the credit card segment is expected.

k-) While the Bank's capital adequacy ratio was 15.9 percent at year-end 2010, the ratio stood at 14.3 percent at year-end 2011. While the capital adequacy ratio in the overall Sector was 18.97 percent at year-end 2010, it decreased to 16.46 percent at year-end 2011. With the decision of BRSA dated October 18, 2011, the risk weights of consumer loans increased to 150 percent and 200 percent, and this played a big part in the reduced capital adequacy ratio.
In conclusion, within the framework of this statutory auditors' report, which we have prepared pursuant to Article 354 of the Turkish Commercial Code, we recommend that the Bank's balance sheet, profit/loss statement, and the other financial statements associated therewith for 2011 be approved and that the Board of Directors be acquitted of its fiduciary responsibilities with respect to the Bank's activities in 2011.

Ankara, February 16, 2012

Yours Sincerely,

Faruk ÖZÇELİK	Yusuf DAĞCAN
Member of Board of Auditors	Member of Board of Auditors

*Figures excluding accruals are given.