

TÜRKİYE HALK BANKASI A.Ş.
BOARD OF AUDITORS REPORT ON
THE 2014 OPERATING AND FISCAL YEAR

The Board of Directors has outlined the following points upon inspection of the activities for 2014.

- The Bank posted a paid-in capital of 1.25 billion Turkish lira. Its shareholders' equity rose by 16.9 percent to 16.54 billion Turkish lira at the end of 2014, up from 14.15 billion Turkish lira year-on-year,

- The Bank has resolved to increase its paid-in capital by 1 billion Turkish lira to fulfill its capital commitment regarding the participation bank it will establish; the Banking Regulation and Supervision Agency has provided the pre-authorization in regards to establishment of the participation bank; and the work is ongoing toward incorporation and obtaining operation permission,

- The asset size of the banking industry soared by 15.1 percent to 1.99 trillion Turkish lira at the end of 2014, up from 1.73 trillion Turkish lira year-on-year. Loan volume surged by 18.5 percent to 1.24 trillion Turkish lira in the same period, up from 1.05 trillion Turkish lira year-on-year. Total securities increased by 5.4 percent to 302.27 billion Turkish lira. Total deposits rose by 11.3 percent to 1.05 trillion Turkish lira at the end of 2014, up from 945.77 billion Turkish lira year-on-year. Non-performing loans/total loans ratio reached 2.9 percent with a 10 basis point improvement compared to 2013,

- At the end of 2014, the Bank's asset size grew by 11.1 percent to 155.42 billion Turkish lira, loans rallied by 19 percent to 99.21 billion Turkish lira, total securities decreased by 9.4 percent to 24.43 billion Turkish lira, total deposits climbed by 2.9 percent to 103.33 billion Turkish lira, and the non-performing loans/total loans ratio performed at 3.6 percent,

- In 2014, the Bank renewed its syndicated loans in the amount of €11.5 million and \$112 million with the participation of 34 banks from 17 countries,

- In 2014, the Bank issued bank bills with a nominal value of 2.75 billion Turkish lira and also issued a fixed-interest 5-year term third bond (eurobond) with a nominal value of \$500 million abroad,

- The total loans/total assets ratio, a key indicator in determining the quality of the asset, was 63.8 percent at the end of 2014 (industry average was 62.2 percent in the same period), and the deposit-to-loan ratio was 96.0 percent in 2014 (industry average was 117.9 percent in the same period) and compared to 2013, the Bank achieved a 27.7 percent improvement on the loan volume aimed at financing SMEs, the driving force of growth in our country,

- With a 13.62 percent rate in 2014, the Bank's capital adequacy ratio was over the legal limit set by the BRSA. Whereas the industry scored 16.30 percent in the same period. The return on equity of 14.40 percent surpassed the industry average of 12.20 percent at the end of 2014. Net profit for the year fell by 19.8 percent to 2.21 billion Turkish lira in that period,

- By the second term period on December 31, 2014, the required liquidity ratio was a healthy 105.86 percent, above the minimum 100 percent requirement. The FC liquidity adequacy ratio also did very well at 137.96 percent, well above the minimum 80 percent requirement, proving that the Bank has no issues with regard to required liquidity,

- The board of directors of the Bank has resolved that direct and indirect shares held in Halk Sigorta A.Ş. ile Halk Hayat ve Emeklilik A.Ş., subsidiaries of Halkbank, be sold, in part

or as a whole, through the Republic of Turkey Prime Ministry Directorate of Privatization Administration (PA). Accordingly, the process is continuing regarding the PA's tender announcement on January 19, 2015, with regard to the block sale of the shares by the PA,

- In accordance with all relevant legislative provisions, all notebooks and records that the bank is obligated to keep are kept according to the legal requirements, with records and documents that serve as evidence kept suitably, and the financing and reporting systems managed efficiently and in due form,

- Decisions regarding the bank's administration are recorded in the Executive Board's decision notebook, which is kept in accordance with procedure,

- The Bank's internal control, risk management and internal auditing systems are managed effectively and in due form, both at the head office and in audits performed on-site,

- Internal stakeholder satisfaction survey is being held so as to enhance performance of the Bank and its employees, and to improve efficiency and productivity even further,

- In 2014, the Bank increased the number of service units to 902 and continued to grow by opening 23 new branches,

- In 2014, Halkbank recruited 3,325 new personnel to cover its human resources need, while 888 people left the Bank, 321 of them due to retirement and 487 of them due to other reasons. The number of employees rose to 17,314. The ratio of personnel expenses in total revenues increased to 18.1 percent in 2014, up from 15.8 percent year-on-year,

- In 2014, the ratio of higher education graduates was 82.7 percent in the industry and 82.2 percent in the Bank, which achieved a 150 basis-point increase year-on-year,

- The Bank reported an 8.95 total person/day ratio in regards to the internal and external training sessions in which Bank personnel participated, with 13,023 people taking part in in-service training, in 2014.

In conclusion, we respectfully submit to the General Assembly the Board of Auditors' Report, which we have prepared pursuant to Article 31 of the Articles of Association of the Bank.

Ankara, February 24, 2015,

Yours faithfully,

Ali Arslan
Member of the Supervisory Board

Faruk Özçelik
Member of the Supervisory Board

* Figures excluding interest accruals.