

THE BOARD OF DIRECTORS REPORT OF TÜRKİYE HALK BANKASI A.Ş.

In 2014, growth on the global economy stagnated in general. While the US economy signaled a strong recovery trend, the economic outlook in the Eurozone remained fragile and growth in the emerging countries' economies lost momentum.

Even though the Turkish economy was affected from developments in the global economy, it maintained a constant growth performance throughout the year, thanks to the stability achieved and the resolutions and measures taken by the economic administration. The banking industry also maintained its sound structure.

With 76 years experience and creative solutions, Halkbank, the Bank of Productive Turkey, continued to offer new products and services to its customers. Halkbank achieved significant accomplishments in retail banking with Paraf, while continuing to boost growth of the real sector by supporting SMEs within the scope of the agreements it entered into with international finance organizations.

In 2014, Halkbank renewed its syndicated loans in the amount of €11.5 million and \$112 million with the participation of 34 banks in 17 countries, and completed its third bond (eurobond) issuance with a total nominal value of \$500 million abroad. Also in 2014, Halkbank issued bonds with a total nominal value of 2.75 billion Turkish lira.

In 2014, Halkbank increased its assets to 155.4 billion Turkish lira, up from 139.9 billion Turkish lira with an 11.1 percent rise year-on-year.

Halkbank directed the bulk of its assets to loans by the end of 2014 with the share of loans on the balance sheet reaching 65.5 percent, commercial loans, including SME loans rising to 76.5 billion Turkish lira, and retail loans to 25.2 billion Turkish lira. Cash and non-cash loans climbed to 134.5 billion Turkish lira, up from 111.9 billion Turkish lira with a 20.3 percent rise year-on-year.

The Bank's securities portfolio subsided to 26.8 billion Turkish lira in 2014, down by 6 percent year-on-year with the share on the balance sheet reaching 17.3 percent.

Halkbank's total deposit base grew by 2.9 percent to 103.7 billion Turkish lira, up from 100.8 billion Turkish lira year-on-year. In addition, demand deposit volume grew by 15.3 percent to 21.6 billion Turkish lira in 2014, up from 18.7 billion Turkish lira year-on-year.

In 2014, the Bank's capital adequacy ratio, average return on equity, and average return on assets were 13.6 percent, 14.4 percent, and 1.5 percent respectively.

Halkbank posted a 2.2 billion Turkish lira year-end profit and maintained its sustainable profitability in 2014.

With 23 new branches opening in 2014, Halkbank expanded its branch network to 895 domestic branches and ended the year with 17,314 employees.

The Bank enjoys solid brand recognition in Turkey due to its extensive branch network throughout the country. This provides a significant advantage for many customers wishing to

receive interest-free banking services. Based on this, work is ongoing according to the plans to establish a participation bank to offer participation banking products and services and to source the initial capital through the fund that will be obtained from the Bank's capital increase.

The Bank aspires to offer a higher level of insurance service to customers by taking advantage of the bancassurance experience of internationally recognized insurance companies. For this purpose, it has resolved to sell its shares in the current insurance companies through the Directorate of Privatization Administration (PA). Accordingly, the process is continuing regarding the PA's tender announcement on January 19, 2015, pursuant to the Directorate of Privatization Administration High Council resolution dated December 29, 2014, with regard to the block sale by the PA direct or indirect shares held by Halk Sigorta A.Ş. ile Halk Hayat ve Emeklilik A.Ş.

In keeping with its 76-year history, Halkbank had a profitable and productive year, continuing on its path of sustained growth in 2014. We would like to thank our colleagues for their hard work and commitment in making this possible. We hereby present to our esteemed shareholders and their representatives the Reports of the Board of Directors and Auditors prepared for the year 2014 along with the financial statements of Halkbank submitted for their assessment.

Yours faithfully,

Ali Fuat Taşkesenlioğlu
Member of the Board of Directors
General Manager

Hasan Cebeci
Chairman