

BOARD OF AUDITORS REPORT OF TÜRKİYE HALK BANKASI A.Ş.  
REGARDING THE OPERATING AND ACCOUNTING PERIOD OF 2016

The Board of Directors has outlined the following points after inspecting the Bank's activities for 2016.

- As of the end of 2016, total assets of the banking industry grew by 15.8 percent year-on-year, up from 2,357,432 million Turkish lira to 2,730,942 million Turkish lira. Cash loans increased by 16.8 percent year-on-year, up from 1,484,960 million Turkish lira to 1,734,342 million Turkish lira. Total portfolio of securities grew by 6.6 percent to 351,552 million Turkish lira, and total deposits increased by 16.7 percent year-on-year, up from 1,245,428 million Turkish lira to 1,453,660 million Turkish lira. Non-performing loans/total loans ratio reached 3.2 percent.
- With such industry developments in the backdrop, the Bank's total assets soared to 231,441 million Turkish lira as of the end of 2016, up 23.3 percent year-on-year. Cash loans went up by 24.9 percent, reaching 155,061 million Turkish lira. The Bank's SME loans, aimed at financing the driving force behind our country's growth, increased from 48,290 million Turkish lira in 2015 to 57,131 million Turkish lira, up 18.3 percent year-on-year. The Bank also sustained a lead in the industry with 13.5 percent market share in the SME loan segment in 2016; increased its total portfolio of securities to 30,776 billion Turkish lira, up 19.4 percent year-on-year; and increased total deposits (including/excluding interbank deposits) to 149,684/127,127 million Turkish lira, up 23/18.5 percent year-on-year, respectively. Its non-performing loans/loans ratio amounted to 3.2 percent.
- In 2016, the Bank renewed its syndicated loans in the amount of €476.5 million and \$175 million subscribed by 33 banks from 18 countries.
- In 2016, the Bank issued bank bills in the domestic market with a nominal value of 4.7 billion Turkish lira in total, and successfully completed the issuance of its fifth Eurobond amounting USD 500 million with a maturity of 5-year and fixed rate in the international markets.
- As of the end of 2016, the ratio of cash loans/total assets amounted to 67 percent (industry average: 63.5 percent), while the ratio of loans/deposits reached 122 percent (industry average: 119.3 percent).
- The Bank's shareholders' equity increased by 9.7 percent as of the end of 2016, up from 19,424 million Turkish lira in 2015 to 21,317 million Turkish lira in 2016. Net period income increased by 10.5 percent year-on-year, reaching 2,558 million Turkish lira at the end of 2016.
- In 2016, Halkbank increased the number of credit cards issued to 3.9 million. The number of POS devices installed was 317,000 and the number of member merchants who signed on increased to 297,000. Its Mobile Banking app, also updated in 2016, received a Bronze award at the Stevie Awards, a program that recognizes the best in the business world globally, in the "App Awards: Experimental & Innovation" category.

- All the books and records that the bank is required to keep as per applicable regulations are kept in due conformity with the legal requirements; all records and certifying documents are duly maintained and the accounting and reporting systems are managed efficiently and duly.
- The Board of Directors' minutes on the Bank's management are duly recorded as a minutes resolution and kept in accordance with these procedures,
- The Bank's internal control, risk management, and internal auditing systems are managed effectively and duly according to the findings of audits performed both at the head office and on-site.
- Sustaining the growth of its branch network, the Bank opened 15 new branches and a representative office in Singapore in 2016, increasing the total number of its domestic branches to 959.
- In 2016, because 869 people left the Bank due to either retirement or for other reasons, Halkbank had to hire 722 new personnel to cover its human resources needs, increasing the total number of employees to 16,956. The ratio of personnel expenses in total revenues decreased to 18.7 percent in 2016, down from 19.7 percent in 2015.
- In 2016, university/college graduates accounted for 83.4 percent of the total headcount, up 70 basis-points year-on-year.
- The Bank reported a training rate of 8.74 employees per day, or 16,433 participants. This included instructor-led, on-the-job, and e-learning training programs in 2016.

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

Istanbul,  
February 17, 2017

Best regards,

Zekeriya KAYA  
Board of Auditors Member

Faruk ÖZÇELİK  
Board of Auditors Member

\* Figures excluding rediscount.