

TÜRKİYE HALK BANKASI A.Ş.
BOARD OF AUDITORS REPORT ON 2017

The Board of Auditors has outlined the following points after inspecting the Bank's activities for 2017.

- As of the end of 2016, total assets of the banking sector grew by 19.3 percent year-on-year, up from 2,731,037 million Turkish lira to 3,257,819 million Turkish lira. Cash loans increased by 21 percent year-on-year, up from 1,734,342 million Turkish lira to 2,098,329 million Turkish lira. Total portfolio of securities grew by 14.3 percent to 401,671 million Turkish lira, and total deposits increased by 16.5 percent year-on-year, up from 1,541,946 million Turkish lira to 1,796,536 million Turkish lira. Non-performing loans/total cash loans ratio declined to 2.96 percent.
- With such sector developments in the backdrop, the Bank's total assets soared to 305,351 million Turkish lira as of the end of 2017, up 31.9 percent year-on-year. Cash loans went up by 28.5 percent, reaching 199,221 million Turkish lira. The Bank's SME loans, aimed at financing the driving force behind our country's growth, increased from 57,136 million Turkish lira in 2016 to 75,913 million Turkish lira, up 32.9 percent year-on-year. The Bank also sustained the lead in the sector with 14.8 percent market share in the SME loan segment in 2017; increased its total portfolio of securities to 45,141 million Turkish lira, up 46.7 percent year-on-year; and increased total deposits to 192,122 million Turkish lira, up 28.4 percent year-on-year, respectively. Its non-performing loans/total cash loans ratio amounted to 2.97 percent of cash loans whereas the Credit Guarantee Fund loans exceeded the 20 billion Turkish lira threshold and took the first place in the sector.
- In 2017, the Bank issued a total nominal value of 8.3 billion Turkish lira of bonds and 10 year-term secondary-capital bonds for a value of 1 billion Turkish lira.
- As of the end of 2017, the ratio of cash loans/total assets, an indicator of asset quality, amounted to 65.2 percent (industry average: 64.4 percent), while the ratio of loans/deposits reached 103.7 percent (industry average: 116.8 percent).
- The Bank's shareholders' equity increased by 19 percent as of the end of 2017, up from 21,327 million Turkish lira in 2016 to 25,377 million Turkish lira in 2017. Net period income increased by 45.6 percent year-on-year, reaching 3,725 million Turkish lira at year-end of 2017.
- Total number of credit cards issued increased to 4 million, total number of POS devices installed to 348 thousand and the number of member merchants who signed on to 328 thousand,
- The Bank established as a subsidiary Halk Varlık Kiralama A.Ş. and became the first issuer of lease certificates in the real estate investment market in 2017.
- 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' resolutions with respect to the management of the Bank are duly recorded the board of directors' minute book and are duly maintained.
- 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 4 new branches in 2017 increasing the total number of its domestic branches to 963, totally 969 branches including abroad (5 branches in TRNC and 1 branch in Bahrain).
- In 2017, since 707 employees left the Bank due to either retirement or for other reasons, Halkbank had to hire 1,602 new personnel to cover its human resources needs, increasing the total number of employees to 17,851. The ratio of personnel expenses in total revenues decreased to 18.5 percent in 2017, down from 18.9 percent in 2016.
- In 2017, university/college graduates accounted for 84.3 percent of the total headcount, up 90 basis-points year-on-year.
- The Bank reported a training rate of 17.97 employees per day, or 18,054 participants. This included instructor-led, on-the-job, and e-learning training programs in 2017.

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.

Best regards,

Prof. Dr. Yılmaz ÇOLAK
Board of Auditors Member

Faruk ÖZÇELİK
Board of Auditors Member

* Figures excluding rediscount.