

TÜRKİYE HALK BANKASI A.Ş.
2018 BOARD OF AUDITORS' REPORT

The Board of Auditors has determined the following points upon review of the activities of the Bank for 2018.

- As of the end of 2018, total assets of the banking sector increased by 18.7 percent year-on-year to 3.867.135 million Turkish lira from 3.257.842 million Turkish lira. Total portfolio of securities rose by 19 percent to 477.873 million Turkish lira, while total deposits grew by 19.6 percent year-on-year to 2.148.410 million Turkish lira from 1.796.536 million Turkish lira. Cash loans rose to 2.394.740 million Turkish lira from 2.098.246 million Turkish lira, up 14.1 percent year-on-year. The non-performing loans/total cash loans ratio amounted to 3.88 percent.
- With such sector developments in the backdrop, by the end of 2018, the Bank's total assets soared to 378.422 million Turkish lira by increasing 23.9 percent year-on-year. Cash loans went up by 23.7 percent, reaching 246.447 million Turkish lira. The Bank's SME loans, aimed at financing the driving force behind our country's growth, rose to 97.153 million Turkish lira from 75.913 million Turkish lira, up 28 percent year-on-year. The Bank also sustained the lead in the sector with 15.9 percent market share in the SME loans in 2018. Artisan loans rose by 31.1 percent year-on-year to 31.124 million Turkish lira, while total portfolio of securities grew by 47.7 percent to 66.687 million Turkish lira. Additionally, total deposits increased by 28.5 percent to 246.893 million Turkish lira. The Bank's ratio of non-performing loans/total cash loans amounted to 3.20 percent.
- In 2018, the Bank issued bonds with a total nominal value of 11.2 billion Turkish lira, and subordinated bonds of 4.9 billion Turkish lira, and mortgage-backed securities of 1 billion Turkish lira.
- As a historical mission, the Bank grants loans to small- and medium-sized enterprises, artisans and tradespeople, as well as corporate, commercial and retail customers. Accordingly, as of year-end 2018, the ratio of cash loans/total assets, an indicator of asset quality, amounted to 65.1 percent (sector average: 61.9 percent), while the ratio of loans/deposits reached 99.8 percent (sector average: 111.5 percent).
- The Bank's authorized capital is 7.500 million Turkish lira while its paid-in capital is 1.250 million Turkish lira. Furthermore, the Bank's shareholder's equity rose by 14.4 percent year-on-year to 29.021 million Turkish lira from 25.377 million Turkish lira.
- The Bank's net profit for the period amounted to 2.522 million Turkish lira at the end of 2018.
- Total number of credit cards issued increased to 4.3 million, total number of POS devices installed to 315 thousand, and the number of member merchants who signed on to 242 thousand.
- All the books and records that the Bank is required to keep as per applicable regulations are kept in conformity with the legal requirements. All records and

certifying documents are duly maintained and the accounting and reporting systems are managed duly and efficiently.

- 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 duly and effectively based on the findings of audits performed both at the head office and on site.
- The Bank's growth continued thanks to the opening of 28 new branches in 2018, increasing the total number of branches to 994. It currently operates with 988 domestic branches and 6 foreign branches: 5 in the Turkish Republic of Northern Cyprus and 1 in Bahrain. Furthermore, the Bank has representative offices in Tehran, London and Singapore, one for each country.
- In 2018, 561 employees left the Bank due to retirement or for other reasons. The Bank hired 1,491 new employees to meet its personnel needs, increasing the total number of employees to 18,781. The share of personnel expenses in total revenues increased to 21.2 percent in 2018, up from 18.5 percent in 2017.
- In 2018, university/college graduates accounted for 85.6 percent of the total headcount, up 130 basis points year-on-year.
- The Bank reported a training rate of 18.6 employees per day and 18,771 participants. This included instructor-led, on-the-job, and e-learning training programs in 2018.

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.