CHAIRMAN'S MESSAGE

Esteemed Shareholders,

Marking an important watershed in the history of the world's economy, we are about to complete the third year of the global financial crisis, while the decoupling in growth and inflation rates between developed and developing countries continues to widen.

In this period, a time reaching predictions for the future is wrought with difficulty, there are a plethora of projections with respect to the direction of the global economy in the short- and medium term.

The global financial crisis reached a new dimension in 2011 in terms of its scope and impacts. The public sector, which had been in a position to support the troubled financial and real sectors in the last quarter of 2008 when the crisis first struck, became the main player of the crisis by the end of 2011; concepts such as "public debt" and "country risk" assumed critical importance.

The risks that spread from the Euro Zone to the whole world stood out as the most significant and plausible threats to global financial stability. Concerns regarding the sustainability of the debt of Greece, a relatively small economy, spread to larger economies in the Euro Zone in the last quarter of 2011.

The instability inflicted damage on the working mechanism of the capital markets and sharp falls were observed in prices of risky assets. Given the integrated structure of financial markets, global risk appetite faltered and central banks of a number of developed economies began to apply non-traditional monetary policies.

The mounting doubts that governments in Europe could survive with their high public debts were unfortunately not limited to the Euro Zone. As the process of temporarily raising the debt ceiling of the USA was strung out, unease in markets elevated. Meanwhile, the long-term credit rating of USA was lowered from AAA to AA+ in August, with medium-term financial threats and political risks concerning deficit-reducing policies cited as the most important reasons behind the downgrade.

Emerging markets began to be affected by the slowing growth rates in developed countries during 2011 through channels such as finance, expectations and trade. Apart from declining global risk appetite, the high public debts of developed countries combined with their surging money volumes in circulation were key factors leading to more frequent volatility in capital flows to emerging markets.

Towards the end of 2011, in a historical decision, the European Central Bank revised its policies and provided a medium term support loan worth about € 500 billion to a total of 523 banks in the Euro Zone, instead of direct bond purchases. This played a role in slightly easing concerns, offering some glimmers of hope for 2012. Likewise, data related to the US economy in the last quarter indicated that the economic outlook in the country began to improve, albeit at a slow pace.

Having managed to emerge from the first phase of the global financial crisis relatively unscathed compared to other emerging markets, our country survived the crisis-recession cycle by demonstrating a strong performance, and maintained its steady growth in 2011.

The most important factors behind this success were the decisive approaches and practices adopted by the CBT and other regulatory authorities to protect price and market stability, as well as the durable structure of our banking sector and the private sector's experience garnered from economic crises in Turkey's recent past.

Capital inflows, that continued in the first half of 2011, as well as Turkey's robust macroeconomic foundations and viable market conditions were behind Turkey's strong growth performance. However, measures taken in the second half of 2011 aimed at cooling down the growth in credit paved the way for a reduced rate of growth, but at the same time set the stage for some balancing between domestic and foreign demand.

Strong audit and monitoring mechanisms, high capital adequacy and advanced risk and liquidity management practices all played a major role in maintaining the strong position of the Turkish banking sector in the global financial crisis.

The banking sector was affected by rising interest rates, increasing costs and the maturity mismatches between liabilities and assets in 2011; as a result, the sector's net interest margins narrowed. On the other hand, rising personnel costs, as well as increasing non-interest expenses and provisions were other factors which compromised the sector's profitability in 2011.

The most important development in the banking sector's asset structure in recent years has been the expansion of its loan volume. According to BRSA figures, the loans/total assets ratio, which was 44.9% in 2006, rose to 56.1% by the end of 2011.

Another eye-catching trend in our sector in 2011 was the increasing volumes of FX swaps, syndication loans and bond-bill issuances. While the increasing tendency towards non-deposit instruments decreased the proportion of deposits among liabilities, the increase in the proportion of loans among assets raised the loans/deposits ratio.

Another development in our sector has been the decline of the capital adequacy ratio. There are two basic reasons for this: firstly, the growth in loan volumes has not slowed as much as necessary, despite the limiting precautions taken by the authority. The second reason is that falling profitability has limited shareholders' equity.

2011 was a year marked by increased demand for credit, while the Central Bank's decisions on interest rates, the government's fiscal discipline and the BRSA's regulations to limit credit conditions did help to slow down the growth in credit, but not to the desired extent.

The Turkish banking industry felt the impact of the global crisis relatively mildly when compared to Europe, thanks to its robust capital structure and asset quality. In this context, credit volumes are expected to grow in 2012 at a rate equal to that in 2011.

Tensions and lack of confidence in financial markets, as well as negative expectations with respect to the future of developed countries will continue to put pressure on the global economy in 2012.

In its recent update published in January, the IMF forecasts that the global economy will grow by about 3.25% in 2012. In 2012, while Europe will focus on resolving its problems in a period of moderate recession, emerging markets are expected to provide the largest contribution to the world economy.

For the Turkish economy which is built on robust macroeconomic foundations, the problems in the Euro Zone - Turkey's primary export market - as well as the gaping current account deficit will need to be watched very closely and managed carefully in 2012.

Under the challenging circumstances facing the world, Turkey and the industry, TEB will press forward with firm steps in its sustainable growth and will continue to provide services, without sacrificing its energy. TEB will be supported by its own know-how, competence, experience and innovation, as well as the support it receives from the knowledge and expertise of BNP Paribas one of its primary shareholders that is operative in 80 countries

Celebrating its 85^{th} anniversary in 2012, TEB not only demonstrated a strong financial and operational performance in 2011, but also succeeded in completing the merger transaction, which marks a significant milestone in the industry.

On behalf of our Board of Directors, I would like to take this opportunity to extend my thanks to our valuable management staff and all TEB employees, who have played such a major role in the completion of operational dimension of the merger transaction ahead of schedule with their dedicated efforts and professional approach throughout the process.

TEB today is the author of valuable activities to ensure the growth and the development of the private sector, as well as its strong integration into global trade. With our rich, unique and innovative products and services, we are the primary supporter of a number of economic actors ranging from SMEs to large corporate clients

We supply funds to our customers within the framework of the most fundamental function of banking and provide them with our information-based services and international expertise.

While executing our business, we attach tremendous priority to risk management, as well as corporate management, transparency and accountability. I believe that TEB will become a more efficient, productive and customer-oriented service provider and continue to offer its products, service and solutions to a growing and diversifying customer mass in 2012 and beyond by means of the most comprehensive projects that it implemented after the merger.

It goes without saying that the global uncertainty and fluctuations will continue for some time to come. Once the global financial crisis, which has been accompanied by an intensification of new financial structuring efforts in the international arena, comes to an end, strong and deeply rooted service providers like TEB will distinguish themselves from the competition with their sustainable growth and increase the added value that they offer to their stakeholders.

I would like to present TEB's annual reports and financial statements of 2011 to your valuable consideration and extend our gratitude to our shareholders for their encouragement and continuous support.

Yours sincerely,

Yavuz Canevi
Chairman of Board of Directors