



***ANNUAL OPERATING REPORT FOR 2017***

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# **I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES**

## **1. ESTABLISHMENT**

HALKBANK a.d. Beograd has been operating in the Republic of Serbia since 2015 when Turkiye Halk Bankasi A.S. became the major owner of Cacanska banka (operating since 1956).

The Bank was registered with the Serbian Business Registers Agency under Decision no. BD 54244 dated 13 September 2005.

The Bank has been operating under the name of Halkbank a.d. Beograd since 22 October 2015 when the change of its legal name was registered in the Serbian Business Registers Agency under Decision no. BD 89155/2015.

## **2. ORGANISATION OF OPERATIONS**

HALKBANK a.d. Beograd is a universal bank which offers all types of banking products and services to corporate clients, entrepreneurs and retail clients. The Bank encourages and finances growth and development of the domestic economy, but is also a safe place for savings deposits of all clients. The Bank's primary goal is to create products that will completely satisfy all customers' expectations.

The Bank is registered in the Republic of Serbia for performance of payment operations and credit and deposit operations in the country and abroad and it operates in compliance with the Law on Banks.

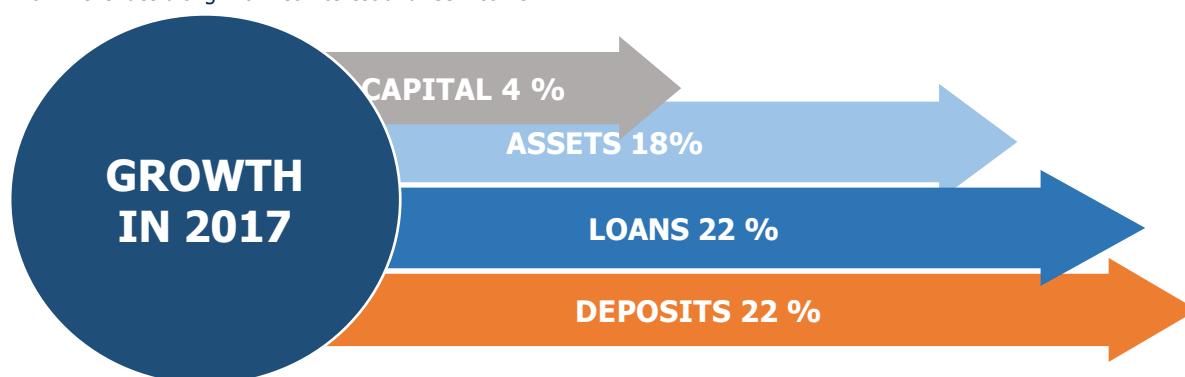
HALKBANK a.d. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 23 branches, 9 sub-branches and 4 cash desks. As at 31 December 2017 the Bank was comprised of 6 branches in Belgrade, 2 branches in Čačak and branches located in the towns of Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Arandjelovac, Valjevo, Šabac, Niš, Novi Sad, Pančevo, Novi Pazar, Zemun and Subotica and 9 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac, Tutin and Čačak.

### 3. BASIC PERFORMANCE RATIOS

(u 000 RSD)

<b>Income Statement - key items -</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>Revised plan for 2017</b>
Net interest income	1.344.962	1.489.305	1.547.043
Net fee and commission income	576.556	604.345	618.817
Net income/(losses) on impairment of financial assets and credit risk- weighted off-balance sheet times	(389.289)	(269.765)	(224.473)
Operating expenses	(1.429.288)	(1.685.888)	(1.752.102)
Profit before taxes	136.080	194.631	219.619
<b>Balance sheet</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>Revised plan for 2017</b>
Loans due form customers	23.962.060	28.907.976	28.848.102
Deposits due to customers	19.226.690	23.449.090	22.628.286
Capital	5.883.585	6.119.707	5.859.660
Total assets	34.985.811	41.449.177	39.688.355
<b>Key performance ratios</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>Revised plan for 2017</b>
Costs to income ratio (CIR)	74,38%	79,38%	80,00%
Non-interest income to operating costs ratio	41,45%	37,26%	36,70%
Capital adequacy ratio (CAR)	15,64%	17,11%	15,01%
ROA	0,42%	0,52%	0,59%
ROE	2,25%	3,20%	3,73%
NIM	5,48%	5,12%	-

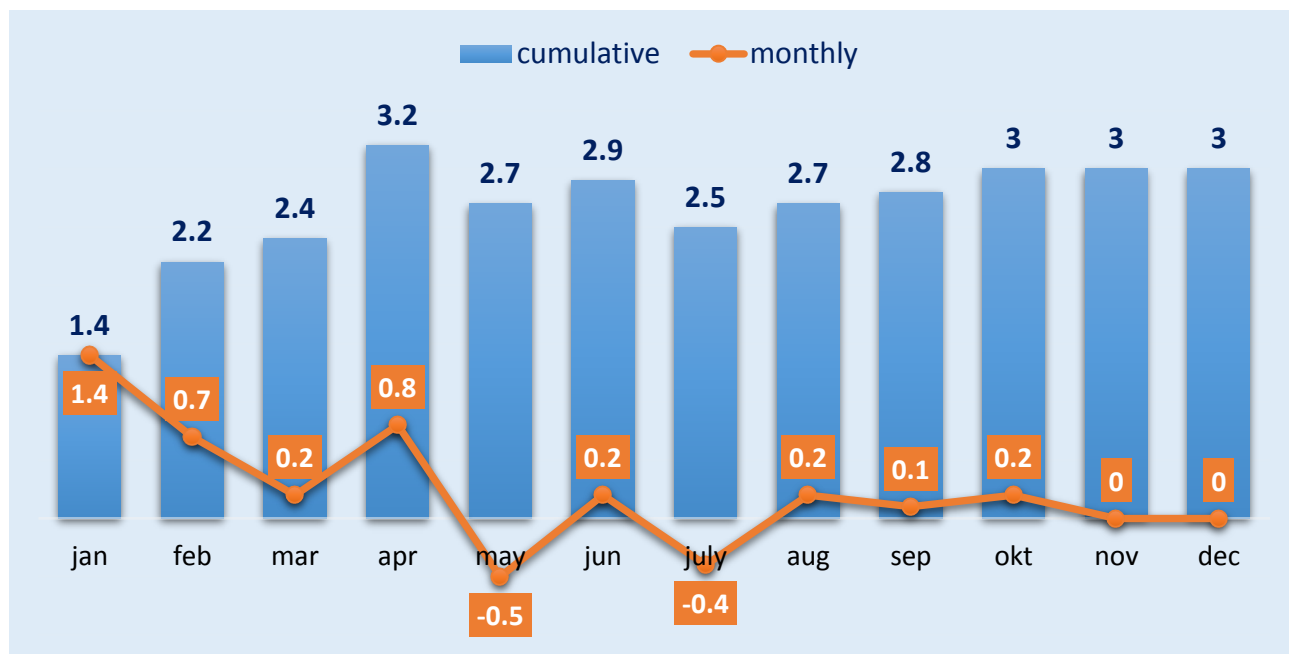
In order to calculate the cost-to-income ratio, cost of provisions for liabilities have been excluded from the other expenses item in the statutory statements. Income from the 'other income' item, with the exception of Reversal of provisions for liabilities, have been included within revenues along with net interest and fee income.



## II FINANCIAL POSITION AND OPERATING RESULTS

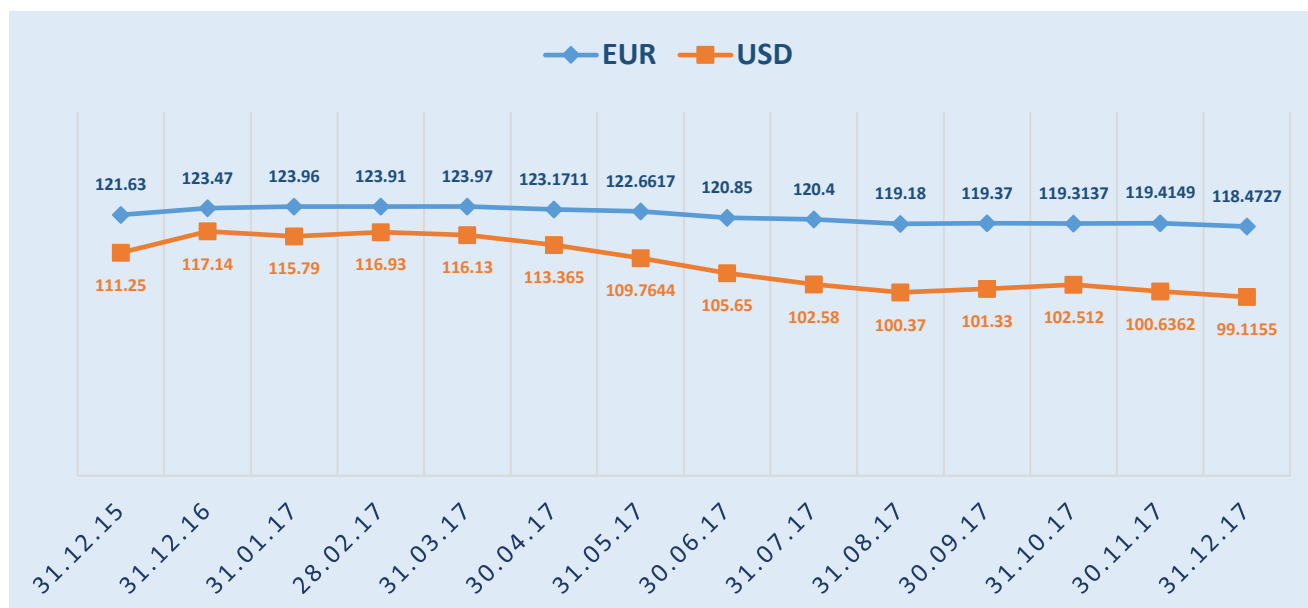
### 1. MACROECONOMIC ENVIRONMENT

Consumer prices growth in Serbia during 2017



In 2017, cumulative growth of consumer prices equaled 3%. The highest monthly increase was in January - 1.4%.

FX trend during the 2017

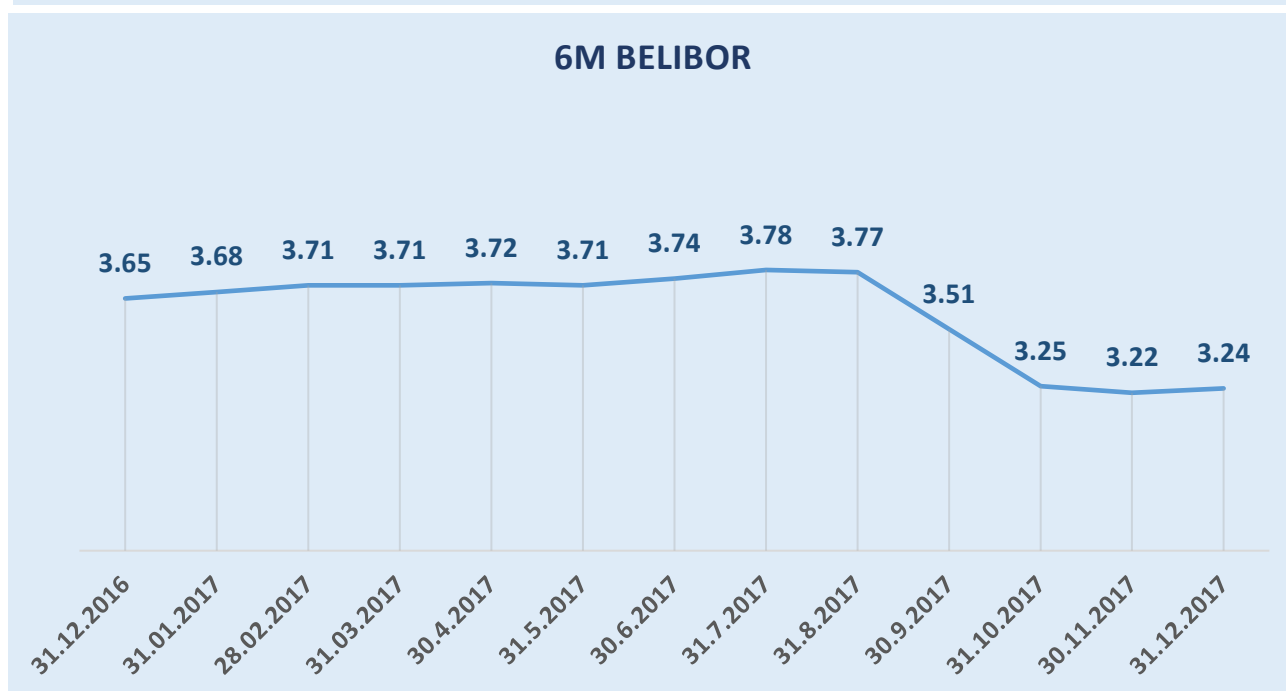
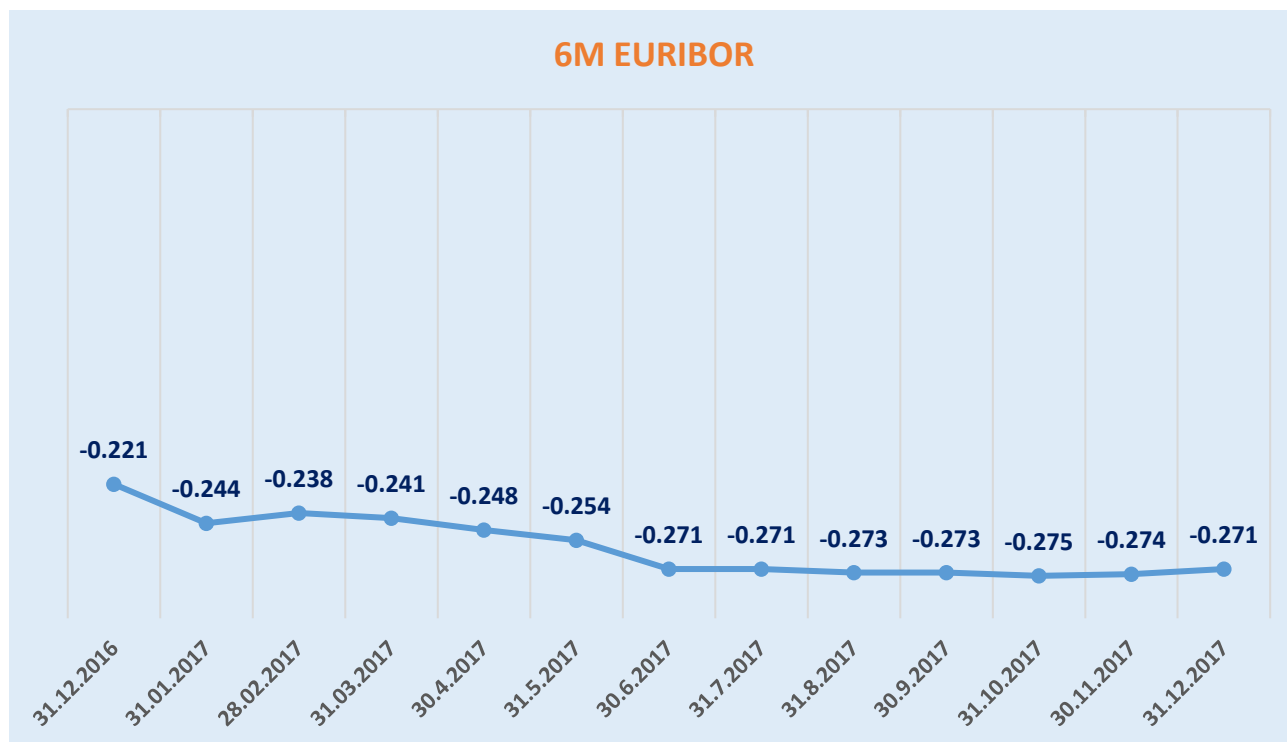


In 2017 RSD appreciated against EUR and USD by 4.05% and 15.38%, respectively.

## Movements of the National Bank of Serbia's Key Policy Rate

NBS Executive Board reduced the key policy rate twice in 2017. At the meeting held on 7 September 2017 the value of the key policy rate was decreased by 0.25 percentage points, from the previous 4.00% to 3.75%. The second time the value of the key policy rate was reduced to 3.50%, at the meeting held on 9 October 2017.

## Fluctuations of the interest rates on the financial markets



## 2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The targets set out in the Bank's Business Policy for 2017 were achieved through the following activities:

1. The Bank planned wide expansion of its branch network, especially in the region of Belgrade, and regions where it had not been present in prior periods. In line with these targets, in 2017 the Bank opened a new branch in Zemun, a branch in Makedonska Street in Belgrade, a branch in Subotica and a sub-branch in Tutin. Moreover, the branch in Leskovac was moved to a more attractive location.

2. The Bank's realized values of liquidity ratios were far better than the set targets, as shown in the following table:

<b>Indicators</b>	<b>31.12.2017</b>	<b>Plan 2017 (minimum)</b>
The average liquidity ratio	1,71	1,2
The average quick (acid) liquidity ratio	1,45	0,9
The liquid asset ratio	26,51%	20%

3. In 2017 the Bank achieved a positive financial result in the amount of RSD 194.631 thousand, with net loss from impairment of financial assets and credit risk off balance sheet items in the amount of RSD 269.765 thousand.

Realized values regarding this goal for the year of 2017 are shown in following table:

<b>Indicators</b>	<b>31.12.2017</b>	<b>Revised plan for 2017</b>	<b>Realisation of Revised plan for 2017</b>
Net interest and fee income	2.093.650	2.165.860	96,67%
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet items	(269.765)	(224.473)	120,18%
Operating costs (staff costs, depreciation charge and other expenses)	(1.685.888)	(1.752.102)	96,22%
Profit	194.631	219.619	88,62%

(u 000 RSD)

4. The Bank has developed an software solution for the implementation of the Basel III Standards in accordance with the regulations of the National Bank of Serbia. Also, the Bank has implemented the most significant part of the necessary activities for the timely application of IFRS 9 standards. In order to fulfill the SPPI criteria documentation of problematic contract clauses was conducted. After all the tests were carried out, with the adoption of the necessary acts at the end of 2017, it was concluded that the entire existing loan portfolio should be valued at amortized cost. At the beginning of 2018 a procedure that defines the process of classification of financial instruments was developed.

The Bank has implemented a new impairment calculation methodology in accordance with the IFRS 9. The IFRS 9 becomes effective as at January 1st 2018 and the first effects of the implementation will be recorded in the first quarter of 2018. A tool has been developed in order to successfully implement the adopted methodology and the first results of the tool were given at the beginning of the current year. Continuation on the development of the tool is expected in 2018.

5. In the last quarter of 2017, the Bank continued to perform the activities planned within the scope of the Tesla Project. At the beginning of Q4 2017, the Bank started the certification process with the DinaCard payment system and successfully completed the part relating to the card acquirer and the Bank HOST. Testing of application solutions was continued in order to prepare the system for certification with VISA and MasterCard payment institutions. Direct communication with VISA and MasterCard systems was established and verified, after both parties confirmed that the communication through new equipment was successful.

In order to become more accessible to the customers, in the last quarter, the Bank significantly increased the number of ATMs in several cities throughout Serbia, having in total 75 ATMs, which accept all payment cards issued under the VISA or DinaCard system. The number of ATMs at the end of 2016 was 35.

6. The main assumption for preparation of the Bank's Business Policy for 2017 was a capital increase in the amount of EUR 20 million by mid-2017, and further borrowings from the International Financial Institutions in the amount of EUR 25 million.

The first EUR 5 million from EFSE long-term credit line totaling EUR 10 million was drawn down on 17 July and the other EUR 5 million drawn on 29 September 2017. GGF long-term credit line in the amount of EUR 5 million was drawn down on 14 August 2017.

The planned capital increase of EUR 20 million was not realized in 2017, as well as the total additional borrowing from the International Financial Institutions in the amount of EUR 25 million, so the Bank revised its budget, and projections of the key financial indicators were corrected and presented as revised targets in this Report.

New projections were included as new planned values for 2017 in the Bank's Annual Report for 2017. After purchase of the Bank's shares at the Belgrade Stock Exchange followed by squeeze-out, Halkbank Turkey (Türkiye Halk Bankası A.Ş.) became owner of 99.89% of the Bank's shares. After the acquisition, at the meeting held on 27 December 2017, the Bank's Assembly enacted a decision on a new share issue in the amount of RSD 2.400 million (about EUR 20 million), with payment deadline until 31 March 2018. On February 20, 2018, the Bank increased its share capital through a new share issue (31st share issue) of 236,412 common stock shares with the par value of RSD 10,000 per share. Thereby the Bank's share capital increased from RSD 4.248.483 thousand to RSD 6.612.603 thousand.



### 3. BALANCE SHEET

As at 31 December 2017 the Bank's total assets amounted to RSD 41.449.177 thousand and accounted for 18.47% increase compared to the end of 2016.

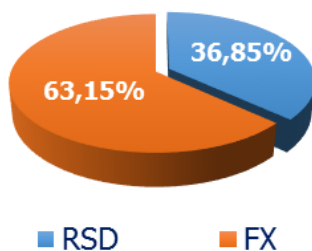
#### 3.1 Assets

	(u 000 RSD)		
<b>ASSETS</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>Revised Plan for 2017</b>
Cash, cash equivalents and balances held with the central bank	4.090.612	4.839.851	4.028.072
Financial assets	4.644.904	4.857.500	4.620.435
Loans due from banks and other financial organizations	1.018.760	1.524.613	805.614
Loans due from customers*	23.962.060	28.907.976	28.848.102
Intangible assets, property, plant and equipment and investment property	1.018.759	1.044.516	1.178.803
Other assets*	250.716	274.721	207.327
<b>TOTAL ASSETS</b>	<b>34.985.811</b>	<b>41.449.177</b>	<b>39.688.355</b>

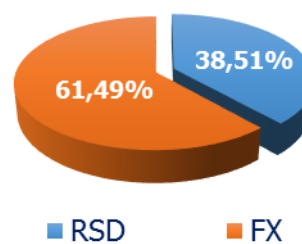
\* The item 'loans due from customers' differs from the item 'loans and receivables due from customers' which is presented in the statement of financial position, for the amount of receivables for accrued interest, fees, accrued interest receivable and accrued income (which are measured using the effective interest method), which are presented within the 'other assets' in the statement of the financial position.

The following graphs present the currency structure of assets as at 31 December 2016 and 31 December 2017:

**Structure of assets  
31.12.2016**



**Structure of assets  
31.12.2017**



### 3.1.1 Loans to clients

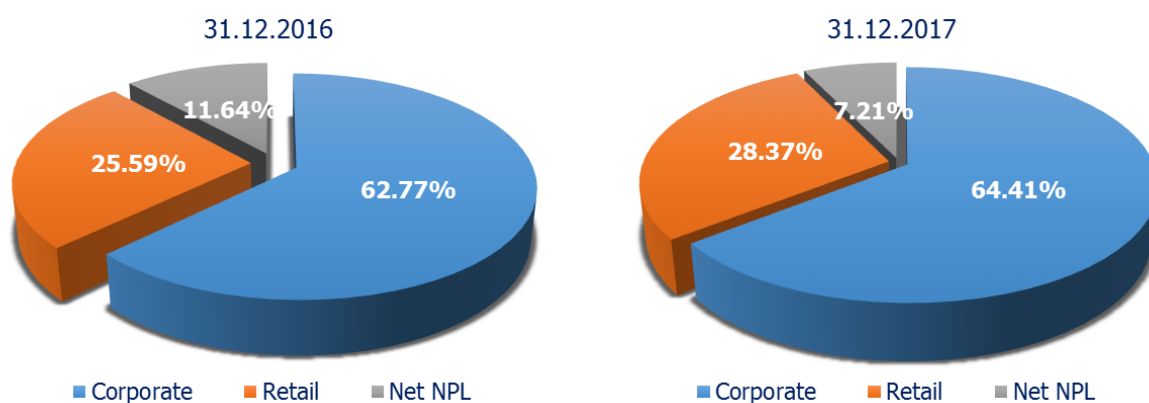
The breakdown of the loans due from customers as at 31 December 2016 and 31 December 2017 is provided in the following table:

(u 000 RSD)

Loans to clients	31.12.2016	31.12.2017	Revised Plan for 2017	% change
<b>Loans:</b>	<b>23.962.060</b>	<b>28.907.976</b>	<b>28.848.102</b>	<b>20,64%</b>
Corporate clients without NPL, net	15.041.077	18.620.433	17.889.378	23,80%
Retail clients without NPL, net	6.132.787	8.202.223	8.648.507	33,74%
NPL, net	2.788.196	2.085.320	2.310.218	-25,21%

\* The item 'loans due from customers' differs from the item 'loans and receivables due from customers' which is presented in the statement of financial position, for the amount of receivables for accrued interest, fees, accrued interest receivable and accrued income (which are measured using the effective interest method), which are presented within the 'other assets' in the statement of the financial position.

The Bank's net loan portfolio increased during 2017 by 20.64%.



In 2017 the Bank approved to its corporate and retail customers loans totaling RSD 19.875.889 thousand, of which RSD 5.533.241 thousand relates to loans of up to one-year maturity and RSD 14.342.648 thousand to loans with over one-year maturities.

## Gross loans - Corporate

Gross corporate loans, including gross NPL as at December 31, 2017 and excluding interest receivables, commission receivables and accrued commissions amounted to RSD 23.246.865 thousand with the following structure:

(u 000 RSD)

<b>Loan type</b>	<b>31.12.2016.</b>	<b>31.12.2017.</b>	<b>% change</b>
Loans from the Bank's resources	15.255.123	18.503.811	21,30%
Loans from IFI's credit lines	5.203.152	4.743.054	-8,84%
<b>Total</b>	<b>20.458.275</b>	<b>23.246.865</b>	<b>13,63%</b>

The most important activities of Corporate and SME Marketing Division in 2017 are as follows:

- The Bank advanced EUR 135 million to Corporate and SME customers through 3,600 loan facilities, while in the same period EUR 120 million of the loans were repaid to the Bank.
- The Bank actively promoted the "Micro Loans" for SME clients through the entire branch network, focused on acquisition of new clients and continuing cooperation with the existing clients, with cross-selling and increasing the number of products per client. During this campaign the Bank disbursed EUR 8 million through 489 loans.
- Bank distributed 450 loans through EFSE loan and Easy bizz loans campaign in total amount of EUR 8,6 million. Loans from EFSE credit lines will be one of the core products of the Bank during next year.
- In 2017 the Bank took an active role in the program of the Government of the Republic of Serbia for investments in small and medium enterprises, with a partial subsidy from the Government in the final investment. The Bank came second in the number and amount of loans granted. During the campaign of subsidized loans, the Bank disbursed EUR 1.6 million through 52 loans.
- In the third quarter of 2017 the Bank executed the Intermediary Financing Agreement for APEX III/B and started promoting investment loans from EIB APEX funds. Such credit funds were intended for financing investment projects in SME segment and market mid-capitalization companies, as well as priority projects of local municipalities and public companies. A portion of funds were dedicated to financing SME projects of hiring young people without prior employment, which will be one of the most important credit products in the next year as well.
- In late November 2017, the Bank executed a contract with the European Investment Fund for participation in the COSME Program - EU program for SME competitiveness. Through COSME Program of guarantees the Bank will ensure easier access to credit funds for more SME companies. Next year loans securitized with COSME guarantee facilities will be one of the Bank's core products in SME segment.
- In 2017 trainings were held for the Sales staff on the topic of sales of guarantees and letters of credit. Focus on this items resulted in issue of 1,650 guarantees and letters of credit totaling EUR 47.9 million.
- With active participation in organization of business forum, the Bank increased recognition of Halkbank among corporate clients.

## Gross loans - Retail

Gross retail loans as of December 31, 2017, including gross NPL amounted to RSD 8.321.738 thousand with the following structure:

	(u 000 RSD)		
Loan type	31.12.2016	31.12.2017	% change
Cash loans	2.761.504	4.529.143	64,01%
Housing loans	2.530.638	2.989.251	18,12%
Consumer loans – EE/RE	361.660	261.769	-27,62%
Consumer loans – other purposes	326.756	271.847	-16,80%
Allowed overdraft	105.163	125.995	19,81%
Due loan receivables	108.429	55.952	-48,40%
Consumer loans – vehicle purchase	31.609	54.689	73,02%
Overdraft	19.962	26.338	31,94%
Receivables related to Dina Card credit card	10.265	6.754	-34,20%
<b>Total</b>	<b>6.255.986</b>	<b>8.321.738</b>	<b>33,02%</b>

The Bank's Retail Marketing and ADC Department achieved significant growth in all fields of activity in the previous year.

In 2017 total EUR 37,8 million in more than 8.500 loans were realized, and loan portfolio increased for 39,3%, and increased market share from 0,84% at the end of 2016 to 1,04% at the end of 2017. Most important placements were realized through cash loans in amount of EUR 29,1 million and housing loans in the amount of EUR 7 million.

In the first half of the year promotional campaigns for cash loans "With us, you know where you stand" and approved current account overdraft "Minus that turns your budget into a plus" were conducted, aimed at expanding the customer base and rewarding loyalty of the long-standing clients. In the third and fourth quarter of the year the Bank successfully conducted a new campaign for cash loans "20 for 5", with established more efficient way of communication between clients and the Bank through a new contact form at the Bank's website.

During the last quarter, the implementation of the new credit line GGF was successfully launched through the realization of consumer loans for investing in energy efficient projects, but also through the implementation of housing loans intended for the purchase of housing units in buildings that meet the latest building standards in terms of energy efficiency. Gross placements from this credit line as of December 31<sup>st</sup> 2017 amounted to EUR 1,2 million.

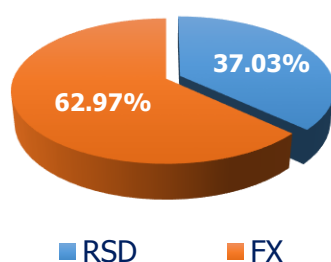
### 3.2 Equity and liabilities

Total equity and liabilities as of December 31, 2017 amounted to RSD 41.449.177 thousand, with the following structure:

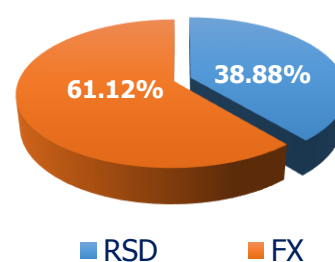
(u 000 RSD)			
<b>EQUITY AND LIABILITIES</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>Revised Plan for 2017</b>
Deposits from banks and other financial organizations	1.715.327	3.190.355	2.843.345
Deposits from other clients	19.226.690	23.449.090	22.628.286
Funds borrowed	7.362.344	7.585.899	7.707.834
Other liabilities	797.865	1.104.126	649.230
<b>TOTAL LIABILITIES</b>	<b>29.102.226</b>	<b>35.329.470</b>	<b>33.828.695</b>
Share capital	4.248.483	4.248.483	4.076.409
Profit	138.153	194.631	219.619
Reserves	1.496.949	1.676.593	1.563.632
<b>TOTAL CAPITAL</b>	<b>5.883.585</b>	<b>6.119.707</b>	<b>5.859.660</b>
<b>TOTAL</b>	<b>34.985.811</b>	<b>41.449.177</b>	<b>39.688.355</b>

The following graphs present the currency structure of liabilities as of December 31, 2016 and December 31, 2017:

**Structure of liabilities  
31.12.2016**



**Structure of liabilities  
31.12.2017**



### 3.2.1 Deposits from banks, other financial organizations and central bank

The breakdown of deposits from banks, other financial organizations and central bank and a comparative analysis as of December 31, 2016 and December 31, 2017 is presented in the following table:

(in 000 RSD)

Position	31.12.2016	31.12.2017	% change
<b>Transaction and other deposits</b>	<b>1.715.327</b>	<b>3.190.355</b>	<b>85,99%</b>
- transaction deposits	15.544	14.956	-3,78%
- other deposits	1.699.783	3.175.399	86,81%

Total increase of deposits from banks, other financial organizations and central bank in RSD amounted to 85,99%.

### 3.2.2 Deposits from other customers

The structure of deposits from other customers and comparative analysis as of December 31<sup>st</sup> 2016 and December 31<sup>st</sup> 2017 is presented in the following table:

(in 000 RSD)

Position	31.12.2016	31.12.2017	% change
<b>Transaction and other deposits</b>	<b>19.226.690</b>	<b>23.449.090</b>	<b>21,96%</b>
- transaction deposits	8.446.234	10.134.074	19,98%
- other deposits	10.780.456	13.315.016	23,51%

\*The item 'Transaction and other deposits' differs from 'deposits and other liabilities due to customers' for the amount of liabilities for interest, fees, accrued liabilities for calculated interest and other financial liabilities due to customers, which were not included in the aforesaid item.

The total deposit base of the Bank, comprising of corporate and retail deposits, amounted to RSD 23.449.090 thousand as of 31, December 2017 is presented as follows:

(in 000 RSD)

Deposit base	31.12.2016	30.09.2017	Plan 2017	% change
Corporate clients	8.975.876	11.217.654	10.781.016	24,98%
Retail clients	10.250.814	12.231.436	11.847.270	19,32%
<b>Total</b>	<b>19.226.690</b>	<b>23.449.090</b>	<b>22.628.286</b>	<b>21,96%</b>

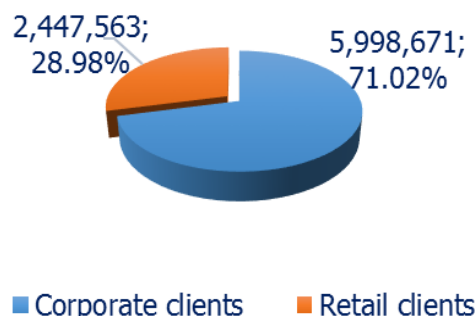
With constant monitoring of market trends, individual and proactive approach to corporate clients, the Bank managed to increase corporate deposits for 24,98% and what is important to mention is that level of transaction deposits increased for 19,98% despite the fact that in February 2017 the Bank cancelled interest payment on transaction deposits.

With a wide range of saving products, the Bank enable its clients adequate managing of funds and as a result, retail deposits increased for 19,32% and market share increased from 0,91% at the end of 2016 to 1,08% at the end of 2017.

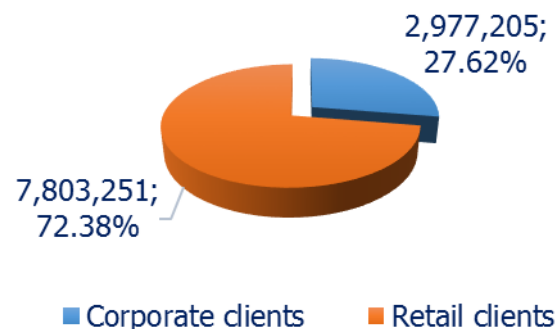
The structure of positions deposits from other customers of the Bank is presented as follows:

(u 000 RSD)

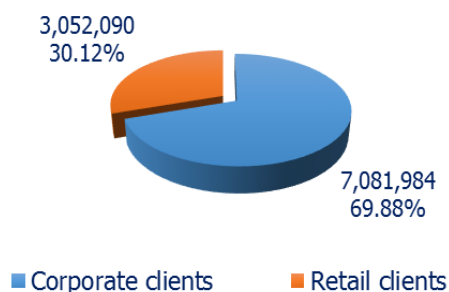
Transaction deposits  
31.12.2016



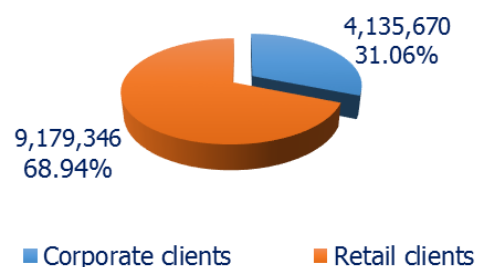
Other deposits  
31.12.2016



Transaction deposits  
31.12.2017



Other deposits  
31.12.2017



## Funds borrowed

(in RSD thousand)

Position	31.12.2016	31.12.2017	% of change
<b>Borrowed loans in foreign currency</b>	<b>7.362.344</b>	<b>7.585.899</b>	<b>3,04%</b>
- EIB	4.892.052	3.719.147	-23,98%
- European Fund for Southeast Europe	-	1.184.727	100%
- EAR long-term revolving line	1.268.190	1.085.062	-14,44%
- KfW	336.743	215.405	-36,03%
- Italian Republic Government	23.895	89.614	275,03%
- GGF	224.102	699.581	212,17%
- Demir-Halk Bank (Nederland) N.V.	617.362	592.363	-4,05%

In 2017, the Bank repaid the principal of long-term borrowings to IFIs on a regular basis in the total amount of EUR 15,760 thousand. In the same period, the Bank drew down EUR 20,163 thousand of IFIs funds, of which the most significant were EFSE credit line in the amount of EUR 10,000 thousand and Green for Growth Fund in the amount of EUR 5,000 thousand.

Repayments were made to EIB in the amount of EUR 8,228 thousand, to KfW in the amount of EUR 909 thousand, to GGF in the amount of EUR 910 thousand, to the Italian Republic Government in the amount of EUR 88 thousand (withdrawals amounted to EUR 650 thousand). In respect of EAR long-term loan, the Bank repaid EUR 5.625 thousand (withdrawals amounted to EUR 4,513 thousand).

### 3.2.3 Capital

The capital of the Bank as of December 31<sup>st</sup> 2017 amounted to RSD 6.119.707 thousand and comprised of the following:

	(in 000 RSD)	
<b>Position</b>	<b>31.12.2016</b>	<b>31.12.2017</b>
Share capital – ordinary shares	1.819.820	1.819.820
Share capital – preference cumulative shares	1.340	1.340
Share capital - preference non-cumulative shares	600.000	600.000
Share premium	1.827.323	1.827.323
Revaluation reserves	322.675	364.162
Reserves from profit	1.174.274	1.312.431
Profit of the current year	138.153	194.631
<b>Total capital</b>	<b>5.883.585</b>	<b>6.119.707</b>

Comparison between realised and planned values of the capital is presented in the table below:  
(u 000 RSD)

<b>Position</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>Revised plan for 2017</b>
Share capital	4.248.483	4.248.483	4.076.409
Profit of the current year	138.153	194.631	219.619
Reserves	1.496.949	1.676.593	1.563.632
<b>Total capital</b>	<b>5.883.585</b>	<b>6.119.707</b>	<b>5.859.660</b>

The information about the number of shareholders and the basic information of shares is presented in the following table:

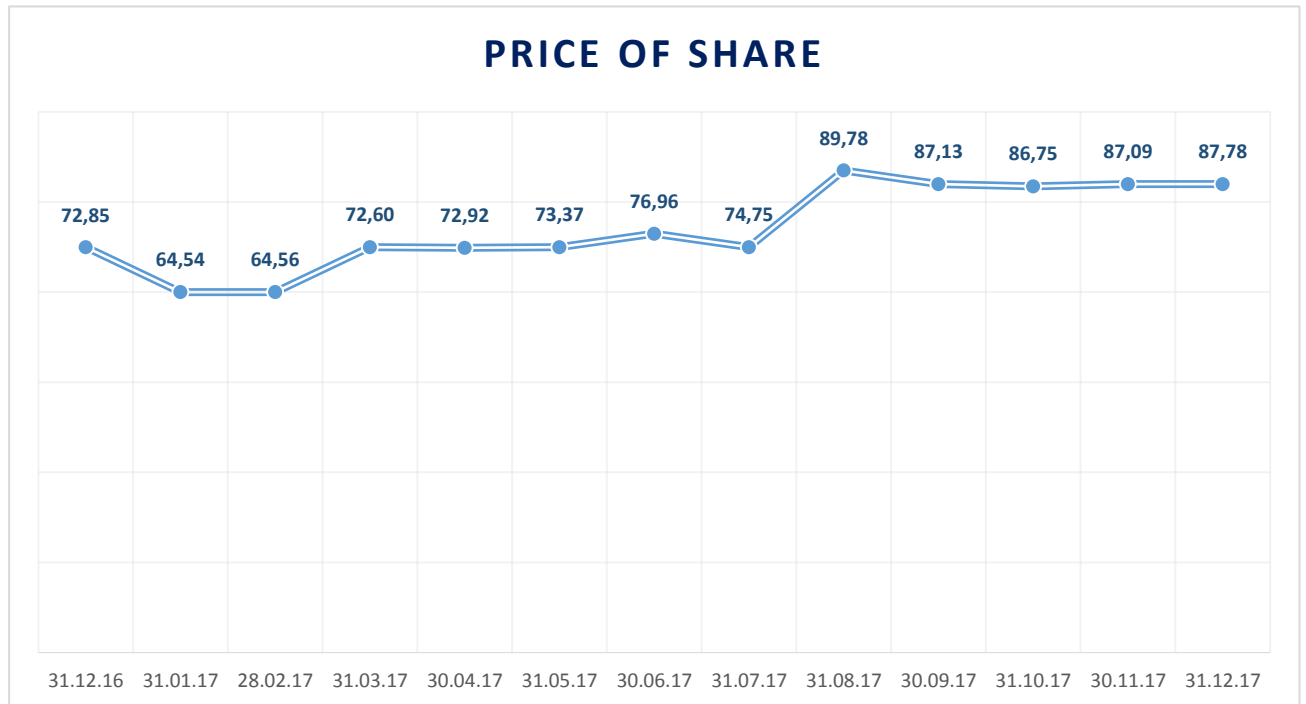
<b>Information on shares</b>	<b>31.12.2016</b>	<b>31.12.2017</b>
Number of shareholders	407	6
Number of shares	242.116	242.116
Nominal value per share in RSD	10.000	10.000
Book value per share (in RSD)	24.300,69	25.275,93

During 2017, there was a significant change in the structure of share capital of the Bank. The majority owner, T. Halk Bankasi A.S. on the August 24, 2017 bought 18.200 ordinary shares on the Belgrade Stock Exchange, and then, in following takeover bid approved by the Securities Commission in the period from September 7, 2017 to 27, September 2017 acquired additional 6.118 ordinary shares. After this takeover bid, on November 15, 2017 majority owner carried out the procedure of forced purchase of shares from the remaining shareholders. At the end of 2017, T. Halk Bankasi A.S. owned 99,88% of ordinary shares or 99,89% of the total capital of the Bank.



31.12.2016	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi	31.12.2017	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi
Ordinary shares	181.982	139.680	76,75%	Ordinary shares	181.982	181.764	99,88%
Preference shares	60.134	60.000	99,77%	Preference shares	60.134	60.090	99,93%
<b>Total</b>	<b>242.116</b>	<b>199.680</b>	<b>82,47%</b>	<b>Total</b>	<b>242.116</b>	<b>241.854</b>	<b>99,89%</b>

The price of Bank's shares as of December 31, 2017 was RSD 10,400 which represents an increase of 15,62% compared to the beginning of the year.



#### 4. OFF-BALANCE SHEET ITEMS

During 2017, the Bank issued performance and payment guarantees and opened letters of credit for its customers. The breakdown of off-balance sheet items as at 31 December 2016 and 31 December 2017 is presented in the following table:

(in 000 RSD)			
Item	31.12.2016	31.12.2017	Revised Plan for 2017
Commitments (per guarantees, acceptances and irrevocable commitments)	5.735.364	6.400.560	5.690.244
Managed funds	295.879	278.305	290.258
Other off-balance sheet items	50.903.080	45.955.946	49.166.170
<b>Total</b>	<b>56.934.323</b>	<b>52.634.811</b>	<b>55.146.672</b>

The following table compares the breakdown of the item guarantees, acceptances and irrevocable commitments as at 31 December 2016 and 31 December 2017:

(in 000 RSD)			
Guarantees, acceptances and irrevocable commitments	31.12.2016	31.12.2017	% change
Performance guarantees	2.475.221	3.313.643	33,87%
Payment guarantees	1.436.821	1.384.362	-3,65%
Irrevocable commitments per undrawn loans	1.182.820	1.259.108	6,45%
Issued foreign currency letters of credit with Banks' confirmation	500.062	385.037	-23,00%
Issued unsecured letters of credit	50.440	58.410	15,80%
Pledged securities	90.000	-	-100,00%
<b>Total</b>	<b>5.735.364</b>	<b>6.400.560</b>	<b>11,60%</b>

The following table presents the breakdown of the other off-balance sheet items:

(in 000 RSD)

<b>Other off-balance sheet items</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>% change</b>
Assets (real estate, land, automobiles, etc.) received by the Bank as collateral securitizing loan repayment	38.411.093	32.438.723	-15,55%
Broken period interest receivables	4.081.544	4.542.059	11,28%
Write-off of receivables in accordance with IAS 39	2.042.043	2.333.854	14,29%
The undrawn amount of combined framework loans (revolving loans plus off-balance sheet exposures)	1.585.658	2.245.606	41,62%
The undrawn amount of revolving loans	1.838.612	1.564.945	-14,88%
Received guarantees and other sureties as collateral in favor of the Bank	1.282.965	1.402.964	9,35%
Other off-balance sheet items	1.371.284	1.309.062	-4,54%
The unused amount of off-balance framework exposures	289.881	118.733	-59,04%
<b>Total</b>	<b>50.903.080</b>	<b>45.955.946</b>	<b>-9,72%</b>

## 5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Bank calculated items of the Income Statement for the period from 1 January to 31 December 2017 in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank's profit for 2017 amounted to RSD 194.631 thousand.

	(in 000 EUR)			
Item	31.12.2016	31.12.2017	Revised Plan for 2017	% of plan
Interest income	1.604.833	1.754.993	1.820.051	96,43%
Interest expenses	(259.871)	(265.688)	(273.008)	97,32%
<b>Net interest income</b>	<b>1.344.962</b>	<b>1.489.305</b>	<b>1.547.043</b>	<b>96,27%</b>
Fee and commission income	663.889	710.404	715.887	99,23%
Fee and commission expenses	(87.333)	(106.059)	(97.069)	109,26%
<b>Net fee and commission income</b>	<b>576.556</b>	<b>604.345</b>	<b>618.817</b>	<b>97,66%</b>
Net gains on financial assets held for trading, available for sale and foreign exchange	12.144	31.523	6.067	519,58%
Other operating income	20.995	25.111	24.267	103,48%
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet items	(389.289)	(269.765)	(224.473)	120,18%
<b>TOTAL NET OPERATING INCOME</b>	<b>1.565.368</b>	<b>1.880.519</b>	<b>1.971.721</b>	<b>95,37%</b>
Staff costs	(584.536)	(648.765)	(668.565)	97,04%
Amortization/depreciation charge	(106.915)	(151.567)	(157.738)	96,09%
Other expenses	(737.837)	(885.556)	(925.799)	95,65%
<b>TOTAL OPERATING EXPENSES</b>	<b>(1.429.288)</b>	<b>(1.685.888)</b>	<b>(1.752.102)</b>	<b>96,22%</b>
<b>NET PROFIT</b>	<b>136.080</b>	<b>194.631</b>	<b>219.619</b>	<b>88,62%</b>

Net profit realized in 2017 is for 43,03% higher than profit realized in 2016. Net interest income in 2017 is higher for 10,73% than net interest income realized in 2016, while net income from fees and commissions is higher for 4,82%. In 2017 realization of net interest income is 96,27% and realization of net income from fees and commissions is 97,66%.

Net losses from impairments in 2017 are lower for 30,70% than in 2016. Realized losses from impairments in 2017 are higher than planned because of additional impairments for NPL clients, which increased NPL coverage with total impairment provisions from 55% at the end of 2016 to 60% at the end of 2017.

Profitability Indicators	31.12.2016	31.12.2017	Plan 2017
Costs to Income Ratio (CIR)	74,21%	79,38%	80,00%
Non-interest income to operating costs ratio	41,45%	37,26%	36,70%

The most significant influence on decrease in these two performance indicators in 2017 was that of an increase in expenses in 2017 comparing to 2016 in line with the Bank's intention to achieve growth and increased the presence and recognition of the Halkbank name in this new market. The operating expenses incurred were below the planned expenses by 3.78%, since, despite increase in expenses, the Bank continuously controlled all operational expenses and did not allow spending in excess of the budgeted amounts per all budget lines of expenses with the constant focus on more efficient spending.

The breakdown of interest income is presented in the following table:

	(in 000 RSD)		
<b>Interest income</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>% Change</b>
Corporate clients	839.314	828.002	-1,35%
Retail clients	451.982	600.356	32,83%
Securities	175.457	212.996	21,39%
Unwinding*	111.704	83.660	-25,11%
Other	26.376	29.979	13,66%
<b>Total</b>	<b>1.604.833</b>	<b>1.754.993</b>	<b>9,36%</b>

\*Interest income on impaired loans that are measured at amortized cost in line with IAS 39

The breakdown of the fee and commission income is presented in the following table:

	(in 000 RSD)		
<b>Fee and commission income</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>% change</b>
Fees from payment operations	403.984	438.884	8,64%
Fees from guarantees	83.301	83.397	0,12%
Fees from FX changes	76.099	91.831	20,67%
Fees from loan processing	31.246	34.723	11,13%
Fees from checks and payment cards	29.011	37.971	30,88%
Fees from SWAP	27.393	9.211	-66,37%
Brokers fees	3.452	5.248	52,03%
Other fees	4.091	3.981	-2,69%
Fees from Bank-insurance	2.634	2.771	5,20%
Fees from Western Union	2.678	2.387	-10,87%
<b>Total</b>	<b>663.889</b>	<b>710.404</b>	<b>7,01%</b>

The breakdown of the interest expense is presented in the following table:

	(in 000 RSD)		
<b>Interest expense</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>% change</b>
Deposits – retail	74.584	84.468	13,25%
Deposits – corporate	58.231	72.406	24,34%
Banks deposits	17.647	20.659	17,07%
Borrowings FI's	109.409	88.155	-19,43%
<b>Total</b>	<b>259.871</b>	<b>265.688</b>	<b>2,24%</b>

The structure of fee and commission expense is presented in the following table:

(in 000 RSD)

<b>Fees and commission expense</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>% change</b>
Payment operations	62.925	70.784	12,49%
Credit biro	9.596	12.101	26,10%
VisaCard and MasterCard	7.995	22.486	181,25%
Credit lines	6.817	688	-89,91%
<b>Total</b>	<b>87.333</b>	<b>106.059</b>	<b>21,44%</b>

The most significant expenses within other operating expenses are presented in the following table:

(in 000 RSD)

<b>Other operating expenses</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>% change</b>
Rental costs	138.937	193.853	39,53%
Taxes on salaries and salary compensations on behalf of employer	100.727	112.649	11,84%
Deposits insurance premium	84.394	106.900	26,67%
PR Marketing costs	92.826	71.810	-22,64%
Maintenance of equipment (IT, security and other)	43.893	47.401	7,99%
Telecommunications	38.111	38.269	0,41%
Legal services	13.142	34.622	163,45%
Insurance premium for Cash Loans	9.577	27.628	188,48%
Electricity, heating and water supply costs	22.168	20.681	-6,71%
Other costs	194.062	231.743	19,42%
<b>Total</b>	<b>737.837</b>	<b>885.556</b>	<b>20,02%</b>

Operating expenses increased mostly due to the higher rental costs, primarily because the Bank opened new branches in line with the Bank's main goal to expand its branch network and presence in the Serbian market. Increase in deposits insurance premium is in line with the growth of the Bank's deposit capacity. Lawyer fees increased because of activities of the external law firms engaged in collecting NPLs and insurance premium for cash loans increased because of significant increase of cash loans extended to pensioners in 2017.

## 6. CASH FLOWS

Cash flows from operating activities during 2016 and 2017 are presented in the table below:

(in 000 RSD)

<b>Item</b>	<b>I – XII 2016</b>	<b>I – XII 2017</b>	<b>Change</b>
<b>Cash inflows from operating activities</b>	<b>2.103.275</b>	<b>2.334.414</b>	<b>231.139</b>
Interest	1.433.910	1.615.643	181.733
Fees	662.217	712.474	50.257
Other operating income	4.004	5.538	1.534
Dividend and share in profit	3.144	759	(2.385)
<b>Cash outflows from operating activities</b>	<b>(1.769.790)</b>	<b>(1.907.513)</b>	<b>137.723</b>
Interest	(283.866)	(245.085)	(38.781)
Fees	(80.365)	(121.289)	40.924
Salaries	(650.582)	(651.930)	1.348
Taxes and contributions	(122.546)	(142.180)	19.634
Other operating expenses	(632.431)	(747.029)	114.598
<b>Net cash inflows from operating activities</b>	<b>333.485</b>	<b>426.901</b>	<b>93.416</b>

Cash inflows from operating activities in 2017 increased for RSD 231.139 thousand comparing to 2016. The main reason for increase of inflows from interest year on year was higher interest income on loans in 2017 on one side and, on the other side, interest on securities higher by RSD 138.805 thousand due to collection of coupons on Treasury bills maturing in 2017.

Cash outflows from operating activities increased by RSD 137.723 thousand comparing to 2016. Cash outflows from interest decreased by RSD 38.781 thousand, mostly because of lower interest paid to IFIs for credit lines in use. Cash outflows from fees increased for RSD 40.924 thousand, mostly related to fees for EFSE credit line in the amount of RSD 11.972 thousand and GGF credit line in the amount of RSD 5.961 thousand, while the other portion of the increase relates to payment operation fees for Visa and MasterCard.

Cash outflows from other operating expenses in 2017 increased for RSD 114.597 thousand mostly due to higher rental costs for business premises, ATMs and new vehicles in use, which caused increase of RSD 54.916 thousand, increase of deposit insurance costs by RSD 22.506 thousand, then costs of lawyer services which were RSD 21.480 thousand higher and costs of insurance premium for cash loans that rose by RSD 13.589 thousand.

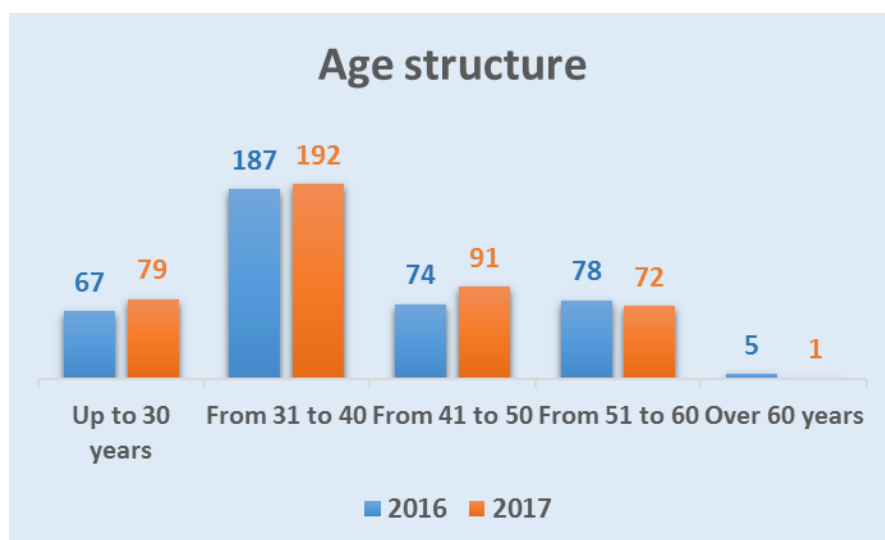
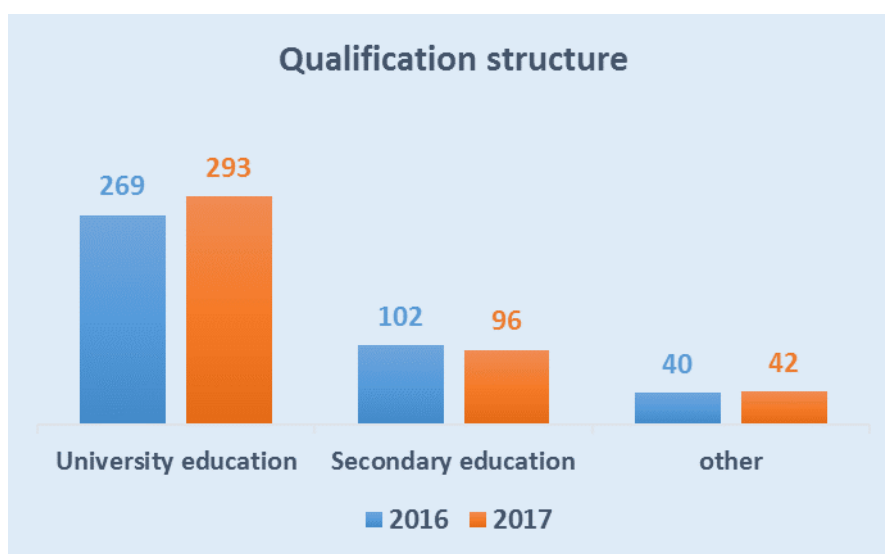
Net cash inflows from operating activities in 2017 amounted to RSD 426.901 thousand, which is an increase of RSD 93.416 thousand comparing to 2016.

## 7. HUMAN RESOURCES

Number of employees in the HQ and branches as of December 31, 2016 and December 31, 2017 is presented in the following table:

Number of employees	31.12.2016	31.12.2017	Plan for 2017
Headquarter	190	187	210
Branches	221	248	240
<b>Total:</b>	<b>411</b>	<b>435</b>	<b>450</b>

The following graphs presents the qualification and age structure of employees as of December 31<sup>st</sup> 2016 and December 31<sup>st</sup> 2017:



Regarding the qualification structure of employees at the end of 2017, the Bank has share of employees with university degree equal to 67,36% of the total. The share of staff younger than 40 years was 62,30%.

Expenses for salaries, salary compensation and other personal expenses in 2017 amounted to RSD 648.765 thousand and accounts for 97,04% of the budget which was planned for 2017.



## 8. INVESTMENT PLAN

During 2017 total investments in fixed assets, investment property and intangible investments amounted to RSD 177.324 thousand.

Changes at these balance sheet items are presented in the following table:

	(in 000 RSD)					
<b>Investments</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Investment property</b>	<b>Intangible investments</b>	<b>Total</b>	<b>Revised Plan for 2017</b>
<b>Balance 01.01.2017</b>	<b>491.358</b>	<b>327.088</b>	<b>126.337</b>	<b>73.976</b>	<b>1.018.759</b>	<b>1.018.759</b>
<b>Increase:</b>	<b>1.535</b>	<b>94.517</b>	<b>5.170</b>	<b>76.101</b>	<b>177.324</b>	<b>358.261</b>
IT	0	28.508	0	76.101	104.609	272.487
Adaption of business premises	1.535	39.759	5.170	0	46.465	47.034
Other	0	26.250	0	0	26.250	38.740
<b>Decrease:</b>	<b>(17.730)</b>	<b>(78.926)</b>	<b>(3.780)</b>	<b>(51.130)</b>	<b>(151.567)</b>	<b>(198.217)</b>
Depreciation	(17.730)	(78.927)	(3.780)	(51.130)	(151.567)	(157.738)
Sell	0	1	0	0	0	3.033
FX effects*	0	0	0	0	0	37.446
<b>Balance 31.12.2017</b>	<b>475.163</b>	<b>342.679</b>	<b>127.727</b>	<b>98.947</b>	<b>1.044.516</b>	<b>1.178.803</b>

The majority of the investments in business premises and other equipment relates to investments in new branches: Makedonska Branch (RSD 9.591 thousand), Zemun Branch (RSD 8.749 thousand); Branch in Subotica (RSD 7.424 thousand) and Tutin Sub-Branch (RSD 6.449 thousand). Additional to this, investment in relocation of Leskovac Branch was RSD 7.301 thousand. Increase in investment property relates to adaptation of two flats in Prote Mateje Street in Belgrade in the amount of RSD 5.170 thousand.

Other investments in majority relates to purchasing of furniture and other (not IT related) equipment for Headquarters (RSD 5.559 thousand), Makedonska Branch in Belgrade (RSD 3.652 thousand), Tutin Sub-Branch (RSD 3.398 thousand), Leskovac Branch (RSD 2.128 thousand), Belgrade Branch in Cara Dusana street (RSD 2.128 thousand), Zemun Branch (RSD 3.664 thousand) and Subotica Branch (RSD 3.013 thousand).

Investments in IT equipment relates to ICT equipment, computer and printer in the amount of RSD 9.613 thousand, investment in IP telephone amounted to RSD 2.121 thousand, while RSD 7.315 thousand related to the IT equipment received in 2017 by agreements contracted in 2016. Investments in CISCO equipment, computers and other equipment for "TESLA" project in 2017 amounted to RSD 9.312 thousand.

Investments in intangible assets relates to purchase of Microsoft licenses in the amount of RSD 31.954 thousand, investments in card management system within "TESLA" project in the amount of RSD 15.985 thousand, implementation of MasterCard licenses in the amount of RSD 11.820 thousand and Banksoft licenses in the amount of RSD 6.306 thousand. Additional to this, in 2017 the Bank had investment in AML software in the amount of RSD 7.591 thousand.

## 9. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

### Compliance with the NBS regulations

As of December 31, 2017 all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS regulations.

Ratio	The values prescribed by the NBS regulations	Values as at 31 <sup>st</sup> December 2017
Bank's equity	Min 10.000.000 €	42.585.634€
Capital adequacy ratio	min 8%	17,11%
Foreign exchange risk ratio	max 20%	2,51%
Liquidity ratio	Min 1	1,51
Narrow liquidity ratio	Min 0,7	1,26
Exposure to one person or group of related persons	max 25%	10,38%
Total exposure to group of related persons	-	13,18%
Sum of large exposures	max 400%	10,38%
Investing into non-financial persons	max 10%	0%
Total investments into non-financial persons and fixed assets of the Bank	max 60%	18,74%

Business policy for 2017 as one of the main goals in the risk management process defines maintenance of indicators of capital adequacy above 15%.

On December 31, 2017 the capital adequacy ratio was above the stated target (17,11%).

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, National Bank of Serbia defines ratio of Capital and Eligible Liabilities to total asset for the Bank equal to 20,87%.

The Bank is obliged to comply with the minimum requirement for capital and eligible liabilities in the following way:

- by 31, December 2016 - with 25% of the established requirement;
- by 31, December 2017 - with 50% of the established requirement;
- by 31, December 2018 - with 75% of the established requirement.

According to the data as of June 30, 2017 this ratio was 12,83% (61,47% of total requirement). The ratio as of December 31, 2017 will be calculated by the end of March 2018.

By the Decision of National Bank of Serbia dated on 8, February 2018, National Bank of Serbia changed ratio of Capital and Eligible Liabilities to total asset for the HALKBANK a.d. Belgrade, from 20,87% to 6,20%.

## Compliance with the covenants from the agreements concluded with the international financial institutions (IFIs)

Pursuant to the defined limits in the agreements concluded with the international financial institutions (IFIs) - German Development Bank (KfW), Green for Growth Fund (GGF), the Bank is required to comply with certain financial covenants until the final repayment of the loans. As at 31 December 2017 the Bank is aligned with all indicators except with open credit exposure ratio limit defined by agreement concluded with German Development Bank (KfW) because of amendments on Decision of National Bank of Serbia on classification of balance sheet and off-balance sheet items referring to the part where coefficient for decreasing of required reserve is used.

Financial institution	Indicator	Prescribed value	Value at 31 December 2017
KfW	Open credit exposure ratio	20,00%	25,23%

According to the loan agreements, the Bank regularly reports to the IFIs of its financial ratios, with detailed elaboration on each exceeded limit. The Bank does not expect a negative response from the IFIs on this basis.

## 10. REPORT ON BOARD OF DIRECTORS MEETINGS IN 2017

In 2017 (in period 01 January -31 December 2017), Board of Directors of HALKBANK a.d. Beograd held on 13 meetings as follows:

- **16<sup>th</sup> meeting of the Board of Directors** was held on 27<sup>th</sup> January 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

### Agenda

1. Adoption of the Minutes of the previously meeting;
2. Making decision on adoption Report Bank on inventory of assets and assets' resources of the Bank on 31<sup>st</sup> December 2016;
3. Making decision on dismissal and appointment member of the Audit Committee;
4. Making Decision on adoption amendments and supplements of the Rules of Procedure of the Board of Directors;
5. Making Decision on adoption amendments and supplements of the Rules of Procedure of the Audit Committee;
6. Information of the Decisions passed by the Executive Board under the Authorization of the Board of Directors in period 01 January 2016 to 31 December 2016;
7. Adoption Report on activities of the Audit Committee for period 01 November 2016-30 November 2016;
8. Information on the activities in the field of payment cards project - TESLA project;
9. Miscellaneous.

- **17<sup>th</sup> meeting of the Board of Directors** was held on 24<sup>th</sup> February in business premises of the HALKBANK a.d. Beograd, Belgrade, New Belgrade, Milutina Milankovića 9e

### Agenda

1. Adoption of the Minutes of the previously meeting;
2. Making Decision on adoption amendments and supplements of the Rules of Procedure of the Credit Committee;
3. Making Decision on adoption amendments and supplements of the Rules of Procedure of the Assets and Liabilities Management Committee
4. Adoption Report on activities of the Audit Committee for period 01 December 2016- 31 January 2017;
5. Information of the Decisions passed by the Executive Board under the Authorization of the Board of Directors in period 01 January 2017 to 31 January 2017;

6. Information for the implementation of the budget for 2016;
  7. Making Decision on adoption amendments and supplements of the Decision on appointment President and Member of Credit Committee and Assets and Liabilities Management Committee No. 4318 of 14 October 2016;
  8. Miscellaneous;
- **18<sup>th</sup> meeting of Board of Directors** was held on 16<sup>th</sup> March 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

#### Agenda

1. Adoption of the Minutes of the previously meeting;
2. Making decision proposal for dismissal President of the General Meeting of Shareholders;
3. Adoption the Operating report of the Bank for 2016;
4. Making Decision proposal on adoption financial statements of the Bank for 2016.
5. Making Decision proposal on reviewing Report of the external auditor on performed audit of financial statements for 2016. and submitting to the Banks Shareholders Assembly;
6. Making Decision proposal on use and distribution of profit under financial statements for 2016;
7. Making Decision proposal on adopting the Business Policy for 2017 with accompanying decisions and submitting to the Banks Shareholders Assembly;
8. Making Decision proposal on appointing external auditor for the audit of Financial statements for 2017;
9. Making decision proposal on re-appointment members of the Board of Directors and independent member of the Board of Directors;
10. Making Decision proposal on amendments and supplements of the Statute;
11. Making Decision proposal on amendments and supplements of the Shareholders Assembly Rules of Procedure;
12. Consideration Information about remuneration of members of the Board of Directors and Executive Board of the Bank in 2016. and proposal of remuneration for 2017;
13. Decision on providing approval for conclusion of legal transactions of the Bank with persons related to the Bank;
14. Making decision for scheduling XXXV Regular General Meeting of the Banks Shareholders of the Bank Opening of the meeting and election of Voting Commission and person for the Minutes verification;
  - 14.1. Opening of the meeting and Election of Voting Commission and person for the Minutes verification;
  - 14.2. Report of the Voting Commission;
  - 14.3. Resolution on discharging president of the Shareholders Assembly;
  - 14.4. Resolution on appointment President of Assembly for presiding on the XXXV Regular Meeting of Shareholders Assembly of the Bank;
  - 14.5. Adopting the Minutes from the 10th Extraordinary Meeting of Shareholders Assembly of HALKBANK a.d. Beograd;

- 14.6. Resolution on adopting Operating Report of the Bank for 2016;
- 14.7. Resolution on adopting Financial statements of the Bank for 2016;
- 14.8. Reviewing Report of the external auditor on performed audit of Financial statements for 2016;
- 14.9. Resolution on use and distribution of profit under Financial statements for 2016;
- 14.10. Resolution on adopting the Business Policy for 2017 with accompanying decisions;
- 14.11. Resolution on appointing external auditor for the audit of Financial statements for 2017;
- 14.12. Resolution on re-appointing members of the Board of Directors and independent member of the Board of Directors;
- 14.13. Resolution on amendments and supplements of the Statute;
- 14.14. Resolution on amendments and supplements of the Shareholders Assembly Rules of Procedure;
- 14.15. Review Information about remuneration of members of the Board of Directors and Executive Board of the Bank in 2016. and proposal of remuneration for 2017;
- 14.16. Miscellaneous
- 15. Miscellaneous.

- **19<sup>th</sup> meeting of the Board of Directors** was held on 28<sup>th</sup> April 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

#### Agenda

1. Adoption of the Minutes of the previously meeting;
2. Annual Report of Risk management adequacy for 2016;
3. Report on internal capital adequacy assessment process of the Bank ICCAP for 2016;
4. Annual report for 2017 on compliance controls and activities;
5. Adoption supplements of Training plan and program for 2017;
6. Consideration Report on the Internal Audit activities in the period 01 July – 31 December 2016 with focus on the implementation of the Annual Internal Audit Plan for 2016 and monitoring discrepancies in 2016;
7. Adoption of the Information Security Policy;
8. Adoption of amendments of the Guidelines Policy of Lending;
9. Making decision on giving prior consent to the Bank to participate in the purchase of real estate in court proceedings - apartment in Belgrade, Majke Jevrosime Street, which is the subject of a mortgage to secure the Bank's claims towards FAD a.d. Gornji Milanovac, in bankruptcy;
10. Making decision on giving prior consent for the Bank's total exposure towards group of related persons KOMPANIJA JOVANOVIĆ DOO ŠABAC may be higher than 2.500.000,00 EUR, i.e. up to maximum amount EUR 4.500.000,00;
11. Making decision on the sale of the Bank's receivables towards legal entity Europolis doo Mesarci;
12. Making decision on authorization borrowings from EFSE - European Fund for Southeast Europe up to a maximum amount of EUR 10 million;
13. Making Decision on reappointment members of Audit Committee;
14. Report on Stress test for basic and additional liquidity ratios in the period 01 December 2016 – 31 March 2017;
15. Adoption Report on activities of the Audit Committee for period 01 February 2017 – 28 February 2017;
16. Information of the Decisions passed by the Executive Board under the Authorization of the Board of Directors in period 01 February 2017 to 31 March 2017;
17. Information on the letter of the National Bank of Serbia No. 176/1/17 of 18 April 2017 and the Decision of the National Bank of Serbia No. 3143 of 11 April 2017.
18. Miscellaneous.

- **20<sup>th</sup> meeting of Board of Directors** was held on 18th May 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

#### Agenda

1. Adoption of the Minutes of the previously meeting;
  2. Making decision on giving prior consent for the Bank's total exposure towards group of related persons KOMPANIJA JOVANOVIĆ DOO ŠABAC may be higher than 2.500.000,00 EUR, i.e. up to maximum amount EUR 4.500.000,00;
  3. Making Decision on giving approval to the Executive Board for opening new branches;
  4. Making decision on giving prior consent to the Bank to participate in the purchase of real estate-apartment in Kraljevo – possession of the pledger Zoran Milašinović, in the case of collection of claims by the Bank towards legal entity Vojvoda Prijezda doo, in bankruptcy;
  5. Adoption the Operating report of the Bank for period 01 January -31 March 2017;
  6. Miscellaneous.
- **21<sup>st</sup> meeting of the Board of Directors** was held on 29th June in business premises of the HALKBANK a.d. Beograd, Belgrade, New Belgrade, Milutina Milankovića 9e

#### Agenda

1. Adoption of the Minutes of the last meeting;
2. Supplements of General Operating terms and conditions of HALKBANK a.d. Beograd of 21st April 2015;
3. Amendments of:
  - 3.1. General terms and conditions for opening, maintenance and termination of dinar and foreign currency current accounts for entrepreneurs and provision of payment services under these accounts;
  - 3.2. General terms and conditions for opening, maintenance and termination of dinar and foreign currency current accounts for legal entities and provision of payment services under these accounts;
  - 3.3. General operating conditions for Visa business cards for legal entities and entrepreneurs;
4. Making decision on reappointment President and Member of the Executive Board;
5. Making decision on disposal of fixed assets - apartments in Belgrade, Prote Mateje Street, owners of the HALKBANK a.d. Beograd;
6. Making decision for release of receivables based on Loan Agreement no 20114414 of 27 June 2011, 50-618-0073470.0, concluded with legal entity TRGOMEN PV DOO Kraljevo;
7. Making decision on selling Bank's receivables towards legal entity KOMPANIJA NOVI DANI AD ZA GRAFIČKO-IZDAVAČKU DELATNOST ČAČAK;
8. Introduction to the management letter for 2016 issued by the external auditor KPMG doo Beograd;
9. Information regarding decisions passed by the Executive Board under the authorisation of the Board of Directors in the period 01 April 2017-31 May 2017;
10. Report on the Audit Committee Activities for period 01 March -30 April 2017;
11. Report on the liquidity ratios stress tests in the period from 01 April 2017 – 31 May 2017;
12. Making decision proposal for dismissal and appointment president of the Board of Directors;
13. Making decision proposal on supplements of the Statute of the Bank;
14. Making decision proposal on intention to include Revaluation reserves and other unrealized gains in calculation of Common Equity Tier 1 Capital;
15. Making decision for scheduling XI Extraordinary General Meeting of the Banks Shareholders of the Bank and establishing draft of agenda for the Assembly:
  - 15.1 Opening of the meeting and appointment President of Assembly for presiding on the XI Extraordinary Meeting of Shareholders Assembly of the Bank;
  - 15.2. Election of Voting Commission and person for the Minutes verification;
  - 15.3. Report of the Voting Commission;

- 15.4. Adopting the Minutes from the 35th Regular Meeting of Shareholders Assembly of HALKBANK a.d. Beograd;
- 15.5. Resolution on dismissal and appointment president of the Board of Directors;
- 15.6. Resolution on supplements of the Statute;
- 15.7. Resolution on intention to include Revaluation reserves and other unrealized gains in calculation of Common Equity Tier 1 Capital;
- 15.8. Miscellaneous.
16. Adoption Liquidity Risk Management Policy and Capital Management Strategy and Plan;
17. Miscellaneous.

- **22<sup>nd</sup> meeting of the Board of Directors** was held on 17<sup>th</sup> August 2017. in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

#### Agenda

1. Adoption of the Minutes from the last meeting;
2. Making decision proposal on dismissal and appointment members of the Board of Directors;
3. Making decision on dismissal and appointment president and member of the Audit Committee;
4. Making decision for scheduling XII Extraordinary of Bank's Shareholders' Assembly meeting and establishing draft of agenda for the Assembly:
  - 4.1. Opening of the meeting and appointment President of Assembly for presiding on the XII Extraordinary Meeting of Shareholders Assembly of the Bank;
  - 4.2. Election of Voting Commission and person for the Minutes verification;
  - 4.3. Report of the Voting Commission;
  - 4.4. Adopting the Minutes from the 11th Extraordinary Meeting of Shareholders Assembly of HALKBANK a.d. Beograd;
  - 4.5. Resolution on dismissal and appointment members of the Board of Directors;
  - 4.6. Miscellaneous.
5. Miscellaneous.

- **23<sup>rd</sup> meeting of Board of Directors** was held on 07<sup>th</sup> September 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

#### Agenda

1. Adoption of the Minutes of the last meeting;
2. Making decision for cancelling XII Extraordinary of Bank's Shareholders' Assembly meeting;
3. Making decision on scheduling XII Extraordinary of Bank's Shareholders' Assembly meeting and establishing draft of agenda for the Assembly:
  - 3.1. Opening of the meeting and appointment President of Assembly for presiding on the XII Extraordinary Meeting of Shareholders Assembly of the Bank;
  - 3.2. Election of Voting Commission and person for the Minutes verification;
  - 3.3. Report of the Voting Commission;
  - 3.4. Adopting the Minutes from the 11th Extraordinary Meeting of Shareholders Assembly of HALKBANK a.d. Beograd;
  - 3.5. Resolution on dismissal and appointment members of the Board of Directors;
  - 3.6. Miscellaneous.
4. Miscellaneous.

- **24<sup>th</sup> meeting of Board of Directors** was held on 29<sup>th</sup> September 2017 in business premises of the HALKBANK a.d. Beograd, Belgrade, New Belgrade, Milutina Milankovića 9e

#### Agenda

1. Adoption of the Minutes of the previously meeting of the Board of Directors;
2. Adoption the Operating report of the Bank for period 01 January -30 June 2017;
3. Adoption Amendments and Supplements of Accounting Policy;
4. Adoption Amendments and supplements of Strategy for NPL Management and Collection;

5. Making decision on giving prior consent for the exposure of the Bank towards Consortium or member of Consortium, which consist of legal entities IC Ictas Altyapi Yatirimlari ve Isletme A.S., Turkey (33,3%), Incheon International Airport Corporation, South Korea (33,4%) and VTB Capital Infrastructure Holdings Limited, Cyprus (33,3%), in amount of EUR 3.000.000,00, for the purpose of issuing a tender guarantee;
  6. Miscellaneous.
- **25<sup>th</sup> meeting of the Board of Directors** was held on 9<sup>th</sup> October 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

#### Agenda

1. Adoption the Minutes of the previously meeting;
  2. Making proposal of decision on shares' price in proceeding of compulsory redemption (squeeze out);
  3. Making proposal of decision on compulsory redemption (squeeze out);
  4. Making decision on scheduling XIII Extraordinary Meeting of Shareholders' Assembly and establishing draft of agenda for the Assembly:
    - 4.1. Opening of the meeting and appointment President of Assembly for presiding on the XIII Extraordinary Meeting of Shareholders Assembly of the Bank;
    - 4.2. Election of Voting Commission and person for the Minutes verification;
    - 4.3. Report of the Voting Commission;
    - 4.4. Adopting the Minutes from the 12th Extraordinary Meeting of Shareholders Assembly of HALKBANK a.d. Beograd;
    - 4.5. Making Resolution on shares' price in proceeding of compulsory redemption (squeeze out);
    - 4.6. Making Resolution on compulsory redemption (squeeze out);
    - 4.7. Miscellaneous.
  5. Miscellaneous.
- **26<sup>th</sup> meeting of the Board of Directors** was held on 3<sup>th</sup> November 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call
- #### Agenda

1. Adoption the Minutes of the previously meeting;
  2. The annual update of the Banks Recovery plan;
  3. Miscellaneous.
- **27<sup>th</sup> meeting of the Board of Directors** was held on 28<sup>th</sup> November 2017 in premises of Türkiye Halk Bankası A.Ş., Istanbul, Barbaros Mahallesi Şebboy Sokak br. 4 Atasehir/ Istanbul and HALKBANK a.d. Beograd, via conference call

#### Agenda

1. Adoption of the Minutes of the previously meeting;
2. Adoption Decision on revision of financial projection in Business Policy for 2017 (Budget revision for 2017);
3. Adoption of the Decision proposal of the Business Policy and strategy of the Bank for 2018-2022;
4. Making decision on increasing the Bank's exposure towards Erste Bank Group;
5. Amendments of the Operational Annual Internal Audit Plan for 2017;
6. Semi-annual internal audit report for the period of 01 January-30 June 2017, with the realization of Operational Annual internal audit Plan in the period of 01 January-30 June 2017 with the monitoring of findings for the period 01 January- 30 June 2017;



7. Information on the Letter of warning G.br. 5228 of 22th June 2017, issued by National Bank of Serbia regard to the control of the risk management of money laundering and terrorist financing and payment control;
  8. Information on the Decision on orders and measures G no 9423 of 02th November 2017, issued by the National Bank of Serbia regarding supervision of credit risk management, supervision on capital adequacy ratio as on 31 December 2016 and supervision of managing of the Bank;
  9. Information regarding Contract concluded with GGF and EFSE and granting approval on concluded agreement;
  10. Adoption of the Decision proposal on the exclusion of the preferential subscription right;
  11. Adoption of the Decision proposal on issuing price of the XXXI issue of ordinary shares;
  12. Adoption of the Decision proposal on XXXI issuance of ordinary shares;
  13. Making decision on scheduling XIV Extraordinary Meeting of Shareholders' Assembly and establishing draft of agenda for the Assembly:
    - 13.1. Opening of the meeting and appointment President of Assembly for presiding on the XIV Extraordinary Meeting of Shareholders Assembly of the Bank;
    - 13.2. Election of Voting Commission and person for the Minutes verification;
    - 13.3. Report of the Voting Commission;
    - 13.4. Adopting the Minutes from the 13th Extraordinary Meeting of Shareholders Assembly of HALKBANK a.d. Beograd;
    - 13.5. Adoption of the Decision on the exclusion of the preferential subscription right;
    - 13.6. Adoption of the Decision on issuing price of the XXXI issue of ordinary shares,
    - 13.7. Adoption of the Decision on XXXI issuance of ordinary shares;
    - 13.8. Adoption of the Decision of the Business Policy and strategy of the Bank for 2018-2022;
    - 13.9. Miscellaneous.
  14. Miscellaneous.
- **28<sup>th</sup> meeting of Board of Directors** was held on 28<sup>th</sup> December 2017 in business premises of the HALKBANK a.d. Beograd, Belgrade, New Belgrade, Milutina Milankovića 9e:

## Agenda

1. Adoption of the Minutes of the previously meeting;
2. Review and adoption the risk management strategy and policies, strategy and plan for capital management, as well as Country Risk Policy:
  - 2.1. Risk Management Strategy;
  - 2.2. Credit Risk Management Policy;
  - 2.3. Operational Risk Management Policy;
  - 2.4. Strategic Risk Policy;
  - 2.5. Reputation Risk Policy;
  - 2.6. Concentration risk management policy;
  - 2.7. Country Risk Policy;
  - 2.8. Environmental and social Risk Management Policy;
  - 2.9. Strategy and plan for Capital Management;
  - 2.10. Interest Rate Risk Policy;
  - 2.11. Liquidity Risk Policy;
  - 2.12. Market Risk Policy;
3. Adoption of Internal Audit Methodology;
4. Adoption of Internal Audit Procedure;
5. Adoption of Operational Annual Internal Audit Plan for 2018;
6. Adoption of quarterly internal audit report for the period of 01 June -30 September 2017, with the realization of Operational Annual Internal Audit Plan in the period of 01 June-30 September 2017 with the monitoring of findings for the period 01 June – 30 September 2017;
7. Adopting of Compliance annual operating plan for 2018 and training plan and program of employees for 2018;
8. Adoption Rules of Procedure of the Board of Directors;

9. Adoption Rules of Procedure of the Audit Committee;
10. Adoption Report on activities of the Audit Committee for period 01 May – 30 September 2017;
11. Report on Stress test for basic and additional liquidity ratios in the period 01 June 2017 – 31 October 2017;
12. Adoption of Business Continuity regulation;
13. Information of the Decisions passed by the Executive Board under the Authorization of the Board of Directors in period 01 June 2017-30 November 2017;
14. Adoption Lending Policy Guidelines;
15. Making Decision on amendments and supplements of the Decision of the Board of Directors No 4324 of 14 October 2016 on transfer authority from the jurisdiction of the Board of Directors to Executive Board and abrogation of the Decision No 3772 of 28 August 2015;
16. Review of the Board of Directors decision for the limit exposure of the Bank for client Aster Textil doo Niš of 14th October 2016;
17. Making decision on giving prior consent for the Bank's exposure towards client Vakif Leasing Istanbul;
18. Making decision on abrogation of the Decision No 5768 of 20 December 2011 on giving prior consent for the Bank's exposure towards Deutsche Bank AG Frankfurt;
19. Making Decision on giving approval on concluding agreement between Bank and Stefan Mikić for debt bases on Loan Contract No 20114414 of 27 June 2011, loan party 50-618-0073470.0 concluded between the Bank and Jarčujak Promet;
20. Making Decision for YU POINT;
21. Basic guidelines for the preparation of the Business Policy and Business Plan (Budget) for 2018;
22. Adoption Operating report for period 01 January – 30 September 2017;
23. Miscellaneous.

### **III INVESTMENT FOR THE PURPOSE OF ENVIRONMENTAL PROTECTION**

The Bank is particularly cautious to invest only in the projects that do not cause any environmental and social harm. Environmental and social (E&S) protection includes, besides ecological aspects, the issues of a local community and employee protection.

The aim of managing E&S risk is identification, assessment and control of the risks that may cause E&S harm and it is carried out in accordance with the E&S Risk Management Policy and Procedure BPI-751-503 E&S Risk Management.

The following bodies are responsible for managing the E&S risk in the Bank:

- Board of Directors that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that establishes and implements the E&S Risk Management Procedure,
- Credit Committees that make decisions on loan disbursement on the basis of the E&S information available and the opinion of the Corporate and SME Marketing Division,
- The Corporate and SME Marketing Division that assesses the impact of the activity and the project during the process of appraising customers' creditworthiness,
- The Risk Management Department that monitors loans by their activities, industrial sectors and E&S risk categories

When processing individual clients' applications, E&S risk is classified for the basic activity of the client and the activity which is subject to financing.

There are the following E&S risk categories:

- High – Exclusion List
- High – Category A
- High
- Medium
- Low

If the activity which is subject to financing is included in the Exclusion List, the application will be rejected. In the event that they are classified in high risk category A, the Environmental Impact Assessment will be provided from the client, and the person appointed by the Executive Board for the SEMS maintenance will provide a prior consent for financing the project.

When reviewing application with the decision draft for the relevant credit committee, the Corporate and SME Marketing Division verifies classification of the activity with regard to E&S risk and the data about the E&S impact of the client and the financed activity.

In the events anticipated by the Procedure, the integral part of the application analysis will be the opinion of the Corporate and SME Marketing Division about how the client submitting the application complies with E&S regulations and standards. Loan agreements and agreements on other exposures contain E&S provisions that should be obeyed by both the client and the Bank.

## Environmental risk

### Overview of the Bank's exposures by environmental and social risk categories

(in 000 RSD)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31.12.2016	31.12.2017	31.12.2016	31.12.2017	
High – Exclusion List	-	-	-	-	-
High – Category A	7	8	112.766	70.640	(42.126)
High	204	244	6.576.746	7.682.454	1.105.708
Medium	956	1.048	10.979.399	11.748.016	768.617
Low	1.923	1.975	12.053.862	13.960.351	1.906.489
<b>Total:</b>	<b>3.090</b>	<b>3.275</b>	<b>29.722.773</b>	<b>33.461.461</b>	<b>3.738.688</b>

In 2017 the Bank did not approve loans to the clients which financed activity is in "High – exclusion list".

## IV MATERIAL EVENTS AFTER THE END OF BUSINESS YEAR

### Share capital increase

On February 20<sup>th</sup> 2018 the Bank increased share capital by issuing a new issue of shares (XXXI) in the amount of 236.412 number of ordinary shares with nominal value of RSD 10.000,00 per share. Share capital increased from RSD 4.248.483 thousand to RSD 6.612.603 thousand.

## V ANTICIPATED FUTURE DEVELOPMENT

In Basic Guidelines for the Business Policy and Business Plan (Budget) for 2018 planned growth in asset size is EUR 95 million (i.e. 28%). Planned increase in liabilities side is increase in capital for EUR 40 million; additional borrowings from IFI's in the amount of EUR 11 million and regular repayment of existing borrowings amounting to EUR 9 million and increase in deposits from clients for EUR 62 million.

Planned increase in asset side relates to increase in net loans for EUR 61.5 million and increase in cash and financial asset for EUR 18 million, out of which EUR 9 million relates to cash and EUR 9 million relates to securities.

Expectation is that interest rates on loans and securities will stay stable in 2018 comparing to the end of 2017. Increase in interest income comes from new placements. Interest rates on deposits will stay stable in 2018 comparing to the end of 2017. Increase in interest expense is due to increase in deposits and borrowings.

Planned increase in operating expenses is due to further widening of branch network and presence on Serbian market, higher investments in processing center for payment cards, increase in deposit base and higher cost of deposit insurance.

## VI RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank carries out a regular financial market research, analyses customers' financial needs and investigates a degree of satisfaction of the users of financial services.

The Marketing Division of Halkbank continuously develops new products and services and endeavors, on the basis of the information and conclusions acquired upon the market research and customers' needs, to develop and place at the market modified existing products, as well as completely new products and services.

## VII INFORMATION ON PURCHASE OF OWN SHARES

The Bank never owned its own shares and did not acquire them during 2016.

## VIII EXISTENCE OF AFFILIATES

As of December 31<sup>st</sup> 2017 the Bank operates in business network of 23 branches, 9 sub-branches and 4 cash desks. As at 31 December 2017 the Bank was comprised of 7 branches in Belgrade, 2 branches in Čačak and 15 branches located in the towns of Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Novi Sad, Pančevo, Novi Pazar and Subotica and 9 sub-branches in Čačak, Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac and Tutin.

## IX RISK MANAGEMENT ADEQUACY

The Bank's targets in risk management are identification, measuring, mitigating and monitoring all types of risks and thus minimizing the Bank's exposure to such risks.

### Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of a loan loss reserve pursuant to the NBS regulations and impairment and provisions pursuant to the IFRS.

#### Structure of gross risk-weighted assets in terms of classification categories

(in EUR thousand)

Classification categories	Classified amount as at 31.12.16	% of the share in gross risk-weighted assets		Classified amount as at 31.12.17	% of the share in gross risk-weighted assets	
<b>A</b>	18.835.955	50,85%	75,7%	23.601.471	54,12%	82,7%
<b>B</b>	9.206.761	24,85%		12.454.845	28,56%	
<b>V</b>	3.009.404	8,12%	8,1%	2.070.139	4,75%	4,7%
<b>G</b>	1.619.829	4,38%	16,2%	1.273.389	2,92%	12,6%
<b>D</b>	4.371.762	11,80%		4.207.751	9,65%	
<b>Total:</b>	<b>37.043.711</b>	<b>100,00%</b>		<b>43.607.595</b>	<b>100,00%</b>	

Compared to the December 31<sup>st</sup> 2016 the participation of receivables classified in A and B categories increased by 7,00 p.p. The share of receivables from clients classified in categories G and D decreased in the last quarter for 3,60 p.p. comparing to the end of 2016.

Pursuant to the Procedure for managing credit risk at the portfolio level the Bank's assets as of December 31<sup>st</sup> 2016 had a high level of credit risk due to the share of receivables classified in categories G and D above 13%, while on December 31<sup>st</sup> 2017 the structure and quality of assets has been improved through the decrease in the share of receivables classified in categories G and D below 13%, so the credit risk of the Bank's assets is at medium level.

### Loan loss reserve pursuant to the NBS Decision on Classification

(in RSD thousand)

	31.12.2016	31.12.2017	Change
Loan loss reserve under balance sheet assets	5.221.921	4.802.763	-8,03%
Loan loss reserve under off-balance sheet items	75.637	69.279	-8,21%
<b>Total:</b>	<b>5.297.558</b>	<b>4.872.042</b>	<b>-8,03%</b>

### Required loan loss reserve

(in RSD thousand)

	31.12.2016	31.12.2017	Change
Required reserve NBS	1.648.182	713.002	-56,74%

A required loan loss reserve as deductible item from capital is the sum of positive differences between the estimated loan loss reserve and the established impairment of the balance sheet and provisions for off-balance sheet losses at the borrower's level.

As of December 31<sup>st</sup> 2017 the calculated required reserve was RSD 2.300.006 thousand but it is further corrected using coefficient for decreasing by 69% on the basis of decreased NPL ratio from non-financing and non-government sector as at 31st December 2017 comparing to 30th June 2016.

### Collection and coverage of NPLs

Gross NPLs based on the methodology of reporting to the National Bank of Serbia is shown in the following table:

(u 000 RSD)

Ratio	31.12.2016	31.12.2017	Change
Gross NPL	5.151.898	4.504.911	-12,56%

Gross NPL as of December 31<sup>st</sup> 2017 was reduced by RSD 646.987 thousand compared to December 31<sup>st</sup> 2016 due to the collection of non-performing loans and the implementation of new NBS regulation on the accounting write-off of bad balance sheet assets. In 2017 the Bank has collected RSD 510.839 thousand of NPLs: RSD 466.428 thousand from companies and RSD 44.411 thousand from retail clients. Accounting write-off of 100% impaired non-performing receivables in 2017 was a total of RSD 226.636 thousand. By accounting write-off of receivables and transmission to off-balance sheet items the Bank does not waive from the agreed obligations and legal rights arising from loans.

### Share of NPLs in total Bank's loans

Ratio	31.12.2016	31.12.2017	Change
Share of gross NPLs in total gross loans	19,48%	14,40%	-5,08 p.p.

The credit risk management policy defined the limit for the level of non-performing loans (NPL ratios) as a ratio of gross NPLs and gross loans in the level of 18%. As of December 31<sup>st</sup> 2017 the Bank is in line with this indicator.

### NPL coverage

Ratio	31.12.2016	31.12.2017
Ratio of NPL coverage with total impairment provisions	54,88%	59,97%
Ratio of NPL coverage with Impairment provisions for loans	49,81%	55,48%
Ratio of NPL coverage with NPL Impairment provisions	47,17%	53,69%
Cost of risk	1,47%	0,86%

The credit risk management policy defined the limit of the cost of risk coefficient as the ratio of the cost of impairment (income statement) and gross loan in the amount of 2%. As of December 31<sup>st</sup> 2017 the Bank is in line with this indicator.

The Strategy for NPL Management and Collection defines basic ratios and their values for ensuring satisfactory coverage of NPLs, as well as the level of loan loss reserves that enables minimizing negative effects of any deterioration of asset quality on the Bank's capital adequacy. In accordance with this Strategy, the bank's target is to maintain NPL coverage ratio by impairment provisions of total loans above 55%. As of December 31<sup>st</sup> 2017 the Bank is in line with this indicator.

Accordingly, all of the above mentioned indicators on the NPL are as of 31 December 2017 within the defined limits with evident trend of improvement.

In the Credit Risk Management Policy, the Bank defined the highest acceptable level of bad (NPE) assets in relation to total balance sheet and off-balance sheet assets that are classified at a level that is less than 20%. The share of bad assets as of December 31<sup>st</sup> 2017 in total classified assets amounts 11,49% and is significantly below the defined limit. Participation decreased compared to December 31<sup>st</sup> 2016 for 4,6 p.p. due to the reduction of bad assets and in the same time increasing of the loan portfolio.

### Liquidity Risk

#### Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS in the period from 01.01-31.12.2017

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of December 31 <sup>st</sup>	1,51	1,26
Average	1,71	1,45
Maximum	2,21	1,98
Minimum	1,37	1,04
Daily NBS limit	Min 0,8	Min 0,5
NBS limit on monthly level	Min 1	Min 0,7

Liquidity ratios of the Bank during the period from 01 January -31 December 2017 were in accordance with the prescribed limits by the Decision on risk management.

In order to manage liquidity risk adequately, the Bank monitors internally established indicators of structural liquidity, besides the limits prescribed by the NBS.

#### **Additional liquidity ratios in the period from 01.01-31.12.2017 – internally established**

	<b>Min.</b>	<b>Max.</b>	<b>Average</b>	<b>Limit</b>
Liquid assets ratio	23,93%	28,73%	26,51%	Min 20,00%
Net loans to total deposits ratio	108,52%	123,48%	113,05%	Max 200,00%
Customers' deposits to total deposits ratio	88,02%	96,81%	91,06%	Min 75,00%
Deposit concentration ratio	18,13%	23,19%	20,82%	Max 30,00%

The Bank was within internally prescribed liquidity limits during the period from 01 January-31 December 2017.

#### **Foreign exchange risk**

##### **FX Risk ratio in the period from 01.01 - 31.12.2017**

Value as of December 31 <sup>st</sup>	2,51%
Average	1,94%
Maximum	6,53%
Minimum	0,18%
Limit NBS	Max 20%

Foreign currency risk measured by FX Risk ratio was located in the low risk category in 2017.

#### **Interest rate risk**

The impact of changes in interest rates on the economic value of the Bank is monitored through total net weighted position of the banking book.

##### **Total net weighted position of the Bank as of December 31st 2017**

(in RSD thousand)

Total net weighted position	-41.650
Equity	5.045.235
Total net weighted position and equity ratio	-0,83%
Internally prescribed maximum	20%

#### **Operational risk**

In the period from 01 January 2017 to 31 December 2017 regarding operational risk, 105 events were reported in the Application of Operational risks.

The most of all events of operational risk that were reported, referred to cash shortage or surpluses and have been successfully resolved (39 events of cash shortage and 16 events of cash surpluses).

	For the period from January 1 – December 31, 2017
Number of events	105
Of which: Cash shortage	39
Of which: Cash surplus	16
Of which: Other	50
Gross loss in EUR	1.358.404,51
Net loss in EUR	9.700,18

The majority of gross loss in EUR relates to wrong booking of data during processing of guarantee for Teklas (reported amount of gross loss was 1.092.060,01 EUR). Net loss is zero for this case. This event of operational risk was reported in February 2017.

From other operational risk events, cases of external frauds are more significant with total gross loss in the amount of RSD 7.921 thousand (EUR 66.856,31) and net loss for the Bank in the amount of RSD 1.083 thousand (EUR 9.140,23).

The Bank performs also risk assessment of Outsourcing, on the basis of the contract concluded with third parties which have clearly defined rights and obligations of the parties. When introducing new products, processes and systems or new business activities the Bank also performs assessment and identification of operational risk.

## Exposure risk

### The Bank's exposure to persons related to the Bank and its large exposures as of December 31<sup>st</sup> 2017

	(in RSD 000)	% of equity	Limit NBS
Persons related to the Bank	664.850	13,18%	-
Large exposures	523.714	10,38%	Max 400%

Large exposure limit of the Bank as of December 31<sup>st</sup> 2017 was within the prescribed limit of the National Bank of Serbia. In terms of internally prescribed limits the sum of all large exposures was in low risk category (up to 200% of regulatory capital).

For all large exposures, the Bank have the decisions of the Board of Directors on loan approval and defining exposure limits.

## Concentration risk

The Bank monitors the concentration risk through a concentration ratio that was defined as the ratio of the 20 largest gross exposures at the level of the client or the group of related parties and total regulatory capital.



The policy of credit risk management has determined that the concentration ratio should be maintained at a level below 300,00%.

	31.12.2016	31.12.2017	Prescribed value
Concentration ratio of 20 largest clients/groups of related parties	195,66%	145,95%	Max 300,00% of regulatory capital

The credit risk management policy also defined the exposure limit in relation to certain geographical areas and according to a specific sector / branch of activity defined in the Portfolio Management Credit Risk Procedure (30%). As of December 31<sup>st</sup> 2017 the largest exposure of the bank was in the mining and processing industry 21,12%.

### Investment Risk

The Bank's investments into non-financial institutions were in a low risk category (below 6% of equity). Total investments into non-financial persons and fixed assets were also in a low risk category (below 45% of equity).

### Bank's investments into non-financial sector and fixed assets as of December 31<sup>st</sup> 2017

	Investments into non-financial sectors	Investments into fixed assets	Total
Amount (000 EUR)	-	945.569	945.569
Share in equity	0%	18,74%	18,74%
Limit NBS	Max 10%	-	Max 60%

### Country risk - The risk relating to the country of origin of the person to whom the Bank is exposed

Bank establishes a system of countries' classification regarding the level of country risk and is committed to a system of risk classification by categories assigned by international credit agencies (Moody's, Standard&Poors and Fitch).

During December 2017, the Bank had exposures to clients, which operate in countries that are classified as low-risk and medium-risk countries, according to Classification of official international credit rating agencies and The Bank Procedure.

Bank exposure towards countries which are in the category of low risk is without limits. The country from this category as of December 31<sup>st</sup> 2017 were Germany, Belgium and Austria. Countries in the category of medium risk were Turkey, Macedonia and Croatia. Exposure to countries in the category of medium risk was significantly below adopted internal limits as of December 31<sup>st</sup> 2017.


Country	Risk category	Limit	Share in Bank capital
Germany	low	without limit	7,18%
Belgium	low	without limit	2,44%
Austria	low	without limit	0,75%
Turkey	medium	100% regulatory capital	6,64%
Macedonia	medium	100% regulatory capital	9,35%
Croatia	medium	10% regulatory capital	0,09%

## X CORPORATE GOVERNANCE RULES

Corporate governance rules of Halkbank a.d. Beograd are regulated in the following by-laws:

- Statute;
- Foundation Agreement;
- Corporate Governance Code;
- Business Code of Board of Directors Members;
- Code of Conduct and Ethical Principles;
- Anti-corruption Policy and
- General Operating Conditions.

### HALKBANK AD BEOGRAD



Head of Financial Management and Planning Division  
Vesna Petrović



Member of Executive Board  
Ertürk Sumer



President of Executive Board  
Kenan Bozkurt