

ANNUAL OPERATING REPORT

2022

PEOPLE

**PEOPLE FIRST AND
FOREMOST**

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HALKBANK a.d. Belgrade (hereinafter: the Bank or Halkbank) is obliged, starting from this year, to compile a non-financial report, in accordance with the Law on Accounting, which is incorporated into the Operating Report.

This means that the Annual Operating Report includes a non-financial report which contains information necessary to understand the development, business results and position of the legal entity, as well as the results of its activities related to minimum environmental protection, social and personnel issues, respect for human rights, corruption and bribery issues, including:

- 1) brief description of the business model of the legal entity;
- 2) a description of the legal entity's policies regarding these issues, including the basic analysis procedures being conducted;
- 3) results of these measures;
- 4) the underlying risks associated with those matters relating to the business of the legal entity, including, where relevant and necessary, its business relationships, products or services that may cause negative results in those areas, and the way in which the legal entity manages the business risks;
- 5) non-financial key performance indicators important for a particular business.

I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

HALKBANK Türkiye was founded in Türkiye in 1933 and has been building a growing network of branches since then. HALKBANK Türkiye aims to efficiently provide all banking services, create added value for its customers, shareholders and employees, as well as to contribute to the development of the banking sector and capital markets, but also gain a respectable place in the banking industry. Today, HALKBANK Türkiye operates successfully in Türkiye, Macedonia, Serbia and the Netherlands.

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

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

The Bank has been operating under the name of HALKBANK a.d. Beograd since 22nd 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. Belgrade is the 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. Belgrade has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 30 branches, 9 sub-branches and 1 cash desk. As at 31st December 2022, the Bank was comprised of 9 branches in Belgrade, 3 branches in Čačak and branches located in the towns of Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Arandelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar, Subotica, Sremska Mitrovica and Vranje and 8 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin, Tutin, Pirot and Preševo. During 2022, the Bank opened new branches in Sremska Mitrovica and Vranje, as well as one sub-branch in Preševo.



3. BASIC PERFORMANCE RATIOS

(in EUR thousand)

Income Statement**	2021	2022	Plan 2022	Plan realization
Net interest income	21,177	25,190	28,132	90%
Net fee and commission income	9,982	13,413	14,930	90%
Net income/(losses) on impairment of financial assets	-1,410	-1,314	-1,900	69%
Operating expenses	23,227	26,007	25,714	101%

Net profit before tax	8,049	12,029	16,968	71%
Profit tax	-498	(1,116)	-1,845	60%
Profit from deferred taxes	13	23	0	-
Net profit after tax	7,564	10,936	15,123	72%

Balance Sheet	31.12.2021.	31.12.2022.	Plan 2022	Plan realization
Loans to clients*	560,229	604,394	753,620	23%
Deposits from clients*	586,093	644,830	690,000	57%
Capital	137,160	184,351	158,499	221%
Total assets	848,612	960,266	1,086,120	47%

Key Performance Indicators (KPI)	31.12.2021.	31.12.2022.	Plan 2022
Costs to Income Ratio (CIR)**	73.76%	66.28%	59.27%
Net Interest Income to OPEX	91.17%	96.86%	109.40%
Non-interest income to Operating costs Ratio	44.40%	54.02%	58.06%
Capital Adequacy Ratio (CAR)***	23.64%	29.99%	18.12%
ROA	0.97%	1.26%	1.57%
ROE	5.87%	7.82%	10.02%
NIM	3.39%	3.68%	3.56%

All financial projections for 2022 are prepared in EUR and realization of goals is followed in EUR. Planned amounts in this report are presented in EUR by using middle exchange rate RSD/EUR valid on 31.12.2022 for balance sheet positions and average exchange rate RSD/EUR for 2022 for income statement positions.

*The difference of positions „Loans to clients“ and „Deposits from other clients“ from the positions in the official Balance sheet form are explained in the items 3.1 and 3.2

**In order to calculate the cost-to-income ratio, Income from the ‘Other income’ position, have been included within revenues along with net interest and fee income.

***Capital adequacy ratio calculated based on NBS temporary measure. Capital adequacy ratio based on regular calculation as of 31.12.2023. was 28.02%



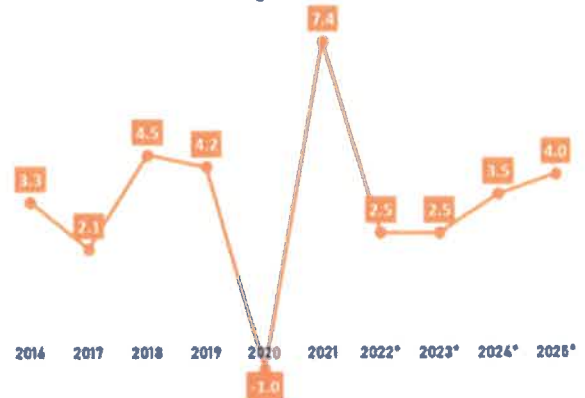
II FINANCIAL POSITION AND OPERATING RESULTS

1. MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

Economic activity

During the two years of the global crisis caused by the coronavirus pandemic, the Serbian economy achieved good results. The gross domestic product in 2020 and 2021 was 46,815 and 53,329 million euros, respectively, while the cumulative GDP growth in 2020 and 2021 was 6.4%, which represents one of the best results in Europe. The package of economic measures during the two crisis years contributed to an increase in the liquidity of economic entities, ease of doing business, while through grants to the population it stimulated domestic demand, and thus indirectly influenced economic activity. In the moments when the end of the pandemic was finally in sight, there was a new global shock caused by the conflict in Ukraine. In the first quarter of 2022, Serbia's GDP grew by 4.3% compared to the same quarter of the previous year, primarily because there were no more significant negative effects of these geopolitical events on the dynamics of domestic economic activity. However, the escalation of conflicts and the tightening of international economic and political relations, accompanied by record energy prices and the consequent reduction in global trade and foreign demand, have inevitably had an impact on domestic and global economic activity, so that the expected GDP growth for 2022 is around 2.5%. while the growth estimate for 2023 was reduced to 2.5%. The record prices of energy products, along with the increase in imported quantities, reflected the deterioration of the balance of payments trends, and under the influence of these factors, we have a larger current account deficit than previously projected both during this year and in the next year.

Real GDP growth rate (%)



Source: NBS; * NBS projection

Inflation

Inflation begins to move upwards from the middle of 2021. Although the initial causes of inflation were of a temporary nature and expectations were that it would quickly return to the target, this did not happen due to geopolitical tensions. Russia's invasion of Ukraine has led to an energy crisis in Europe, sanctions and disruptions in supply chains, all of which have led to rising prices.

In December 2022, the year-on-year increase in consumer prices amounted to 15.1%, the monthly increase in consumer prices in December was 0.5%. The causes of such high inflation are increased geopolitical tensions, sanctions, a bad agricultural season and problems in the energy sector, which together led to an increase in the price of energy and food.

During the year, the highest price growth was recorded for fuel, food and housing rents, so that the year-on-year base inflation (after excluding the prices of food, energy, alcohol and cigarettes) was lower than the total inflation and amounted to 10.1% in December.

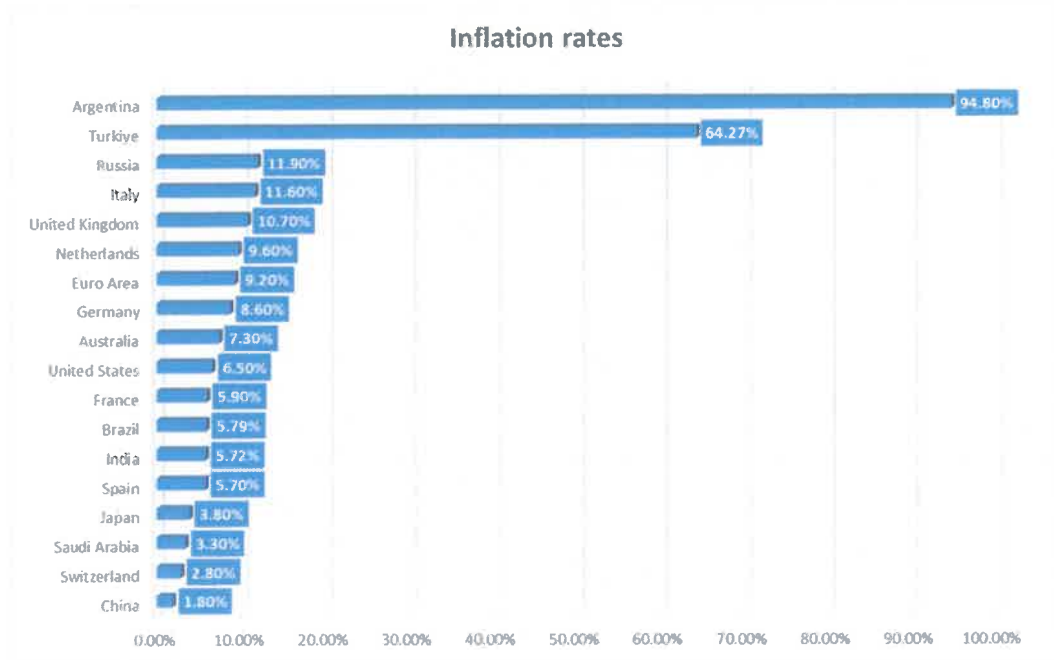
The National Bank of Serbia uses monetary policy measures to reduce price increases and bring inflation back within the inflation target, at the same time taking care not to jeopardize aggregate domestic demand, while the state

limits the prices of some food products and energy products and bans the export of certain agricultural products.

that it will then have a downward trajectory, as well as that its return to the inflation target is expected at the end of 2024.

NBS expects that inflation reached its peak at the beginning of the fourth quarter of 2022 and

Overview of inflation rates in the world's largest economies in 2022



Consumer prices trends in Serbia during 2022



Source: Statistical Office of the Republic of Serbia

Labor market

With a successfully managed economic policy, and strong economic growth and general stability of the economy, significant negative effects of the pandemic were avoided during 2021, and better than expected trends were recorded on the labor market, which was especially visible in earnings. The beginning of 2022 is characterized by the continuation of positive trends in the labor market, which is

reflected, above all, through the growth of employment and real wages, but under the

influence of geopolitical tensions, somewhat slower compared to the previous period.

Although the rate of employment, unemployment and population outside the

labor force, as relative measures of the state of the labor market, in the third quarter remained almost unchanged compared to the second quarter of 2022, there were certain changes in the framework of total employment and other complementary sets. In the male population, the employment rate decreased by 0.6%, while on the other hand, in the female population, the employment rate increased by 0.4%.

The unemployment rate in the third quarter of 2022 was 8.9% and was 0.9 p.p. lower compared to the end of the previous year. The employment rate reached a level of 50.8% in Q3 2022, which is the highest level since 2010.

The average net salary continued to grow in 2022 (January–November period) and amounted to RSD 74,078 (631 euros). Compared to the same period of the previous year, the nominal growth of wages was 13.9%, while the real growth was 2%. Real growth represents the growth of earnings when we exclude the effect of inflation.

Movement of average monthly net salary and real growth rates



Source: Ministry of Finance

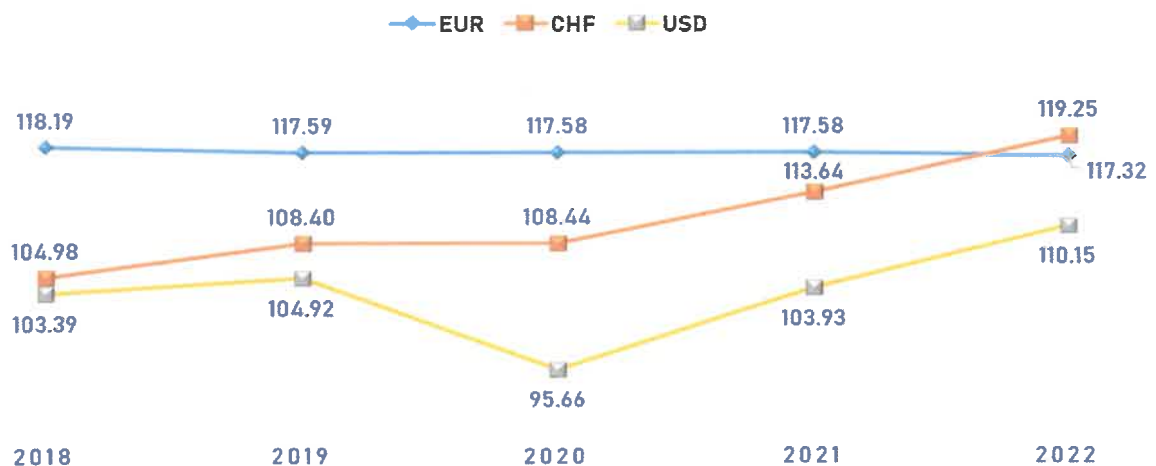
Exchange rate

Gross foreign exchange reserves of the National Bank of Serbia at the end of December 2022 amounted to EUR 19,415.7 million, this is also the highest level of gross foreign exchange reserves at the end of the month and year since the data has been monitored in this way. During December, gross foreign exchange reserves increased by 2,148.4 million euros, while in the whole of 2022 they increased by 2,961.2 million euros.

The increase in foreign exchange reserves in December was mostly influenced by the standby arrangement approved by the International Monetary Fund for the Republic of Serbia (EUR 985.6 million), the inflow of USD funds from the Abu Dhabi Development Fund in the amount of USD 1 billion and the intervention of the National Bank of Serbia on the domestic foreign exchange market.

Since the beginning of the year, the euro has weakened in relation to the dinar by 0.22%. In the last quarter, the dollar has weakened in relation to other world currencies, so that the growth in relation to the dinar at the end of the year is 5.99%.

FX trends



Source: NBS

Interest rates

The previous year was marked by a significant increase in interest rates on the financial markets, which ended the period of cheap money and marked the beginning of the period of restrictive monetary policy and the fight against rising inflation.

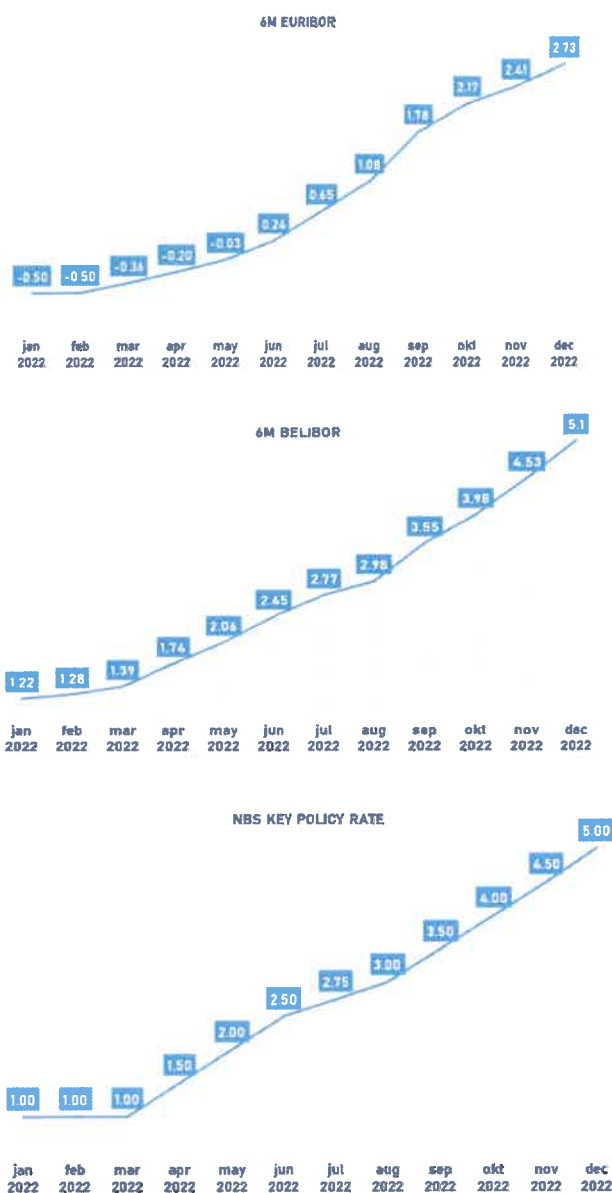
During 2022, the Executive Board of the NBS increased the key policy rate on nine occasions, from the initial 1.5% to 5%, which was current until the beginning of 2023, when the NBS increased the reference interest rate by an additional 0.25 p.p.

In the future period, we can expect that the NBS will continue to increase the reference interest rate during the first half of 2023, also expectations are that the reference interest rate will not exceed 6% and that it will remain at that rate until a significant reduction in consumer prices.

Due to the economic crisis and increasing uncertainty, interest rates on government bonds have also increased, where they are now around 7% for ten-year government bonds.

The tightening of monetary conditions by the NBS continued to be transmitted to the growth of interest rates on dinar loans to households and the economy. According to NBS data, the interest rate on newly approved loans to households in dinars in December 2022 was 12.31%, while on newly approved loans to legal entities in the same month it reached the level of 5.86%. In December 2022, the interest rate on newly approved loans to households, indexed in foreign currency and in foreign currency, amounted to 5.93%, while on newly approved loans to legal entities, it reached the level of 5.01%. Despite the fact that interest rates on loans have increased, lending activity in Q3 2022 has continued to grow.

Interest rate fluctuations in financial markets



Credit rating

Standard and Poor's – In December 2022, the rating agency Standard and Poor's maintained Serbia's credit rating at the BB+ level, despite expressed uncertainties from the international environment. The agency points out that the conflict between Russia and Ukraine as well as the recession in Europe have an impact on Serbia's economy, but it also points out that the economy, supported by exports and foreign direct investments, has positive prospects in the medium term. In its report, the Standard and Poor's agency emphasizes the credibility and continuity of Serbia's monetary and overall economic policy, the resilience of our economy,

the preserved stability of the banking sector, and positively evaluates the new arrangement with the IMF.

Fitch Ratings – In August 2022, the Fitch Ratings agency kept Serbia's credit rating one step closer to investment grade, despite pronounced geopolitical risks. At the same time, the agency maintained stable prospects

for increasing Serbia's credit rating in the coming period. As key factors in the agency's decision, the agency cites the credible framework of the macroeconomic policy conducted in Serbia, as well as stronger management, human resources and a higher level of gross domestic product per capita compared to countries with a similar credit rating.

Credit rating of the Republic of Serbia, Türkiye, neighboring countries and Eurozone countries according to the rating agency Moody's

Country/Year	2017	2018	2019	2020	2021	2022	Current Outlook
Germany	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Stable
France	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Stable
Bulgaria	Baa2	Baa2	Baa2	Baa1	Baa1	Baa1	Stable
Romania	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Stable
Croatia	Ba2	Ba2	Ba2	Ba1	Ba1	Ba1	Stable
Serbia	Ba3	Ba3	Ba3	Ba3	Ba2	Ba2	Stable
Montenegro	B1	B1	B1	B1	B1	B1	Stable
Turkiye	Ba1	Ba3	B1	B2	B2	B3	Negative
Bosnia and Herzegovina	B3	B3	B3	B3	B3	B3	Stable

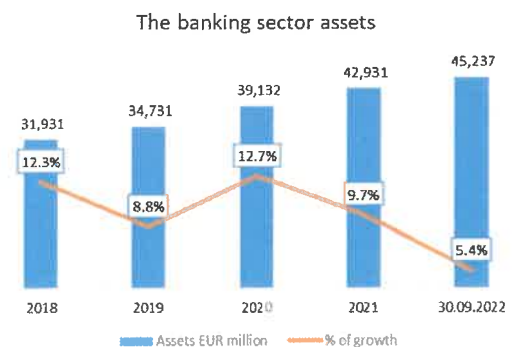
Source: <https://tradingeconomics.com/>

Banking sector

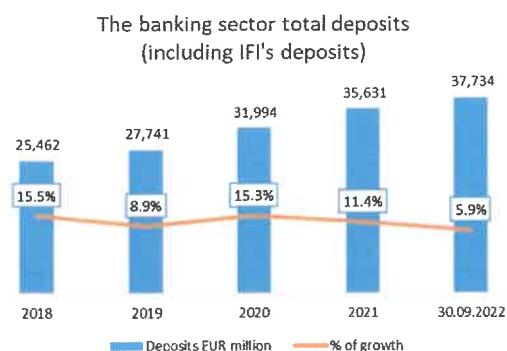
At the end of the third quarter of 2022, 22 banks with an organizational network of 1,402 business units were operating on the Serbian banking market. In 2022, the process of merging NLB and Komercijalna bank into NLB Komercijalna bank was completed, in December Naša AIK bank was merged with AIK bank, which continued the consolidation process in the banking sector of Serbia. The total number of employees in the banking sector is 22,072.

The total balance sheet assets of the banking sector of Serbia amounted to EUR 45.237 million, which is an increase of 5.1% compared to the end of 2021. In the same period, the total deposits of clients and financial institutions recorded a growth of 5.7% and reached the level of EUR 37.734 million, while the capital of banks decreased by 0.88% and amounted to

EUR 6.080 million. A significant negative impact on the capital of banks that have in their portfolio debt securities issued by the Republic of Serbia, and which were valued at fair value through other business results, had an increase in interest rates on the mentioned securities on the secondary market.



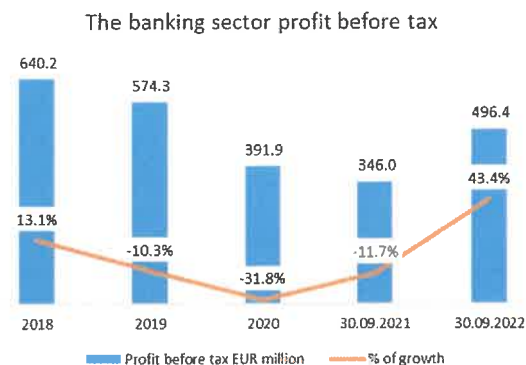
Source: Halkbank's analysis of the banking sector



Source: Halkbank's analysis of the banking sector

The first 10 banks had a share of 86.66% in the total balance amount, in total deposits of clients and financial institutions 86.73%, and in net loans to clients 86.47%. As in the previous period, Banca Intesa is the leading bank in terms of total assets and deposits with a share in the total assets of the banking sector of 14.97% and a share in total deposits of 14.78%. OTP Bank, Unicredit Bank and NLB Komercijalna bank also have a market share of over 10% in total assets. The Bank's net loans and receivables from clients at the end of the third quarter of 2022 amounted to EUR 595 million, which is 5.62% more than at the end of 2021. With a participation in total net loans to the banking sector of 2.22%, the Bank took 13th place and was ranked one place better compared to the end of 2021. The participation of the Bank in the total balance sheet assets of the banking sector is 1.94% and the Bank is in 14th place in terms of balance sheet assets. In terms of the amount of deposits, the Bank is in 13th place in the banking sector with a share of 1.96%.

Closing on 30.09.2022. the banking sector achieved a pre-tax result of EUR 496.4 million, which is 43.4% more compared to the same period of the previous year. 21 banks operated with a positive result, while one bank operated with a loss in the amount of EUR 1.2 million.

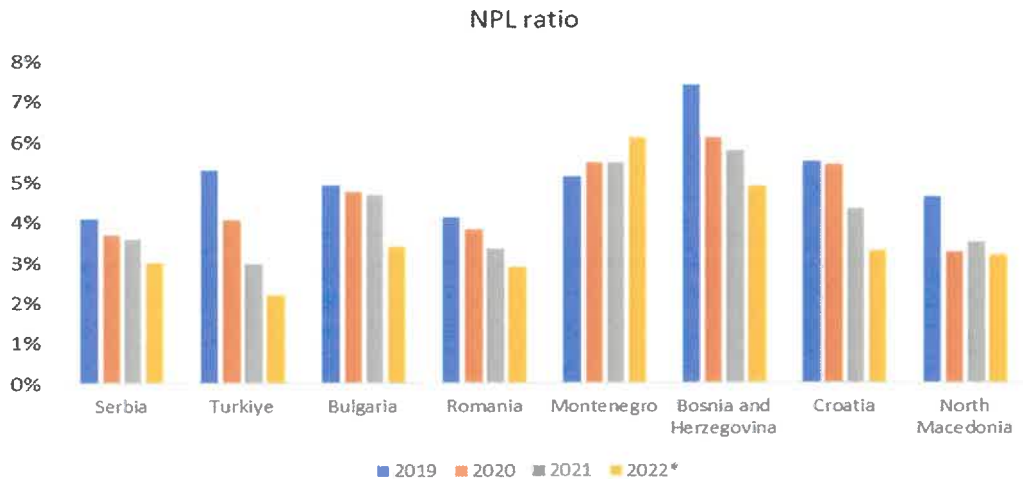


Source: Halkbank's analysis of the banking sector

According to the realized profit before taxation in the first nine months of 2022 of EUR 7.5 million, Halkbank took 12th place.

The increased profitability of the banking sector in 2022 is accompanied by an increase profitability indicators compared to the same period of the previous year. At the end of the third quarter of 2022, the return on equity (ROE) was 10.8% (7.5% at the end of Q3 2021), while the return on assets (ROA) was 1.5% (1.1% at the end of Q3 2021). When calculating the indicator, the annualized result before taxation was taken. The growth of profitability indicators is primarily a consequence of the growth of the net interest margin.

Problem loans (NPL ratio) amounted to 3% at the end of November 2022, while the coverage of these placements with provisions is 57.3%. According to NBS data for Q2 2022, the share of problem loans in total loans to both the economy and the population tends to fall, which indicates that economic support measures were adequate and timely, and that the quality of bank assets was maintained. At the end of 2022, Halkbank had a share of NPLs in total loans of 1.32% and a ratio of non-performing loans coverage with provisions related to non-performing loans of 49.96%, while NPL coverage with total provisions was 79.49%. Despite the corona virus pandemic, rising interest rates and inflation, in 2022 almost all countries in the surrounding area recorded a decline in the share of non-performing loans in total loans.



*Last known data

Source: <https://www.managementsolutions.com/>, NBS, <https://www.ceicdata.com/>, <https://ec.europa.eu/>, <https://www.statista.com/>

The banking sector of Serbia was adequately capitalized with an average capital adequacy ratio of 19.5% at the end of the third quarter,

which is significantly above the required minimum of 8%.

2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The bank sees its goals through the realization of the goals set in the Business Policy for 2022. The goals were realized through the activities listed below.

1. In its business policy for 2022, the Bank plans to expand its business network by opening three new business units, as well as a branch in Preševo, the opening of which was planned in 2021, but was postponed to 2022. In April 2022, the Bank opened a new branch in Preševo, in October a branch was opened in Vranje and in November we opened a new branch in Sremska Mitrovica. With the new branches, the bank currently operates with 39 branches and sub branches, at the end of the previous year we had 36 branches and sub branches.

2. In order to increase our market share, it is planned for our growth of key balance sheet positions to be higher than the growth expected for the banking sector. During Q3 2022, Halkbank improved its position in the loan segment from 14th to 13th place and overtook its main competitor Addiko Bank.

3. In 2022, the bank achieved a positive financial result before tax in the amount of EUR 12,029 thousand, which represents a growth of 49%

compared to the same period of the previous year. The achieved values of the most important indicators related to this business objective are shown in the following table:

Indicators	(in EUR thousand)		
	31.12.2022	Plan 2022	Plan realization
Net interest income	25,190	28,132	90%
Net fee income	13,413	14,930	90%
Operating costs	26,007	25,714	101%
Profit	10,936	15,123	72%

4. In February 2021, the bank started the implementation of the project for the new "Core Banking" system called Halk Fusion. It is estimated that the new software solution for the "Core Banking" system will be implemented during 2023. In 2022, activities were carried out within the framework of very important phases of the project planned for 2022. During 2022, the planned activities related to the planned cycles of data migration as well as UAT data migration, data cleaning, technical preparation of the environment, delivery and testing of the delivered functionalities that were planned in this period (UAT cycles 1 and 2) were carried out.

Training of key users and preparation of user instructions was also done. The implementation phase has been extended until the full delivery of the planned functionalities and the correction of reported defects by Assec with a supplementary delivery in 2023.

In 2023, the plan of activities for the actual release into production (Rollout) will be further elaborated, as well as the preparation of the so-called general rehearsals (Dress Rehearsals), PEN Test and Performance Test of the applications themselves, as well as preparation and maintenance of End User Training, changes to internal acts as well as other activities related to the release of the new system to production.

5. Expansion of the network of POS terminals and ATMs is foreseen with planned investments of EUR 2.1 million for this purpose. Realized investments in 2022 amounted to EUR 612 thousand, i.e. 29% of the planned budget. At the end of 2022, the bank had a network of 98 ATMs (91 at the end of 2021) and 4,332 POS terminals (3,325 at the end of 2021).

6. During 2022, we actively worked on the improvement and development of new products and services, as well as the optimization of certain processes. A system of electronic invoices (E-invoice) and a system for efficient management of mail and documentation (E-office) were successfully introduced."

In order to harmonize business operations with the Law on Electronic Invoicing (Official Gazette No. 44/2021 and 129/2021), an agreement on the entrustment of activities was concluded with the Service Provider - the company "Inception" for the implementation of E-office and e-invoice solutions in the software the Bank's system.

The E-invoice solution enabled us to integrate with the system of electronic invoices - the SEF platform (Electronic invoices system), as well as to automate the entire process of receiving, controlling, approving, copying data into the bank's core system and paying electronic invoices.

The e-office solution enabled us to enter, receive and process invoices that are not sent

through the SEF platform, as well as all other documents that arrive at the Bank, as well as electronic records of all received documents, digitalization of the process of managing mail, contracts and documentation in general.

This integration enabled the full implementation of all processes of sending and receiving documentation, both in paper and electronically. This avoids the unnecessary cost of printing, envelopes, addressing and physical delivery of invoices, and thus contributes to the preservation of the environment.

7. As of December 31, 2022, the bank achieved a capital adequacy ratio of 29.99% (it is planned to maintain this ratio at a level above 18%), which is significantly higher than the regulatory limits. The indicator was calculated with the application of the provisions of the Decision on temporary measures of the National Bank of Serbia, according to which, when calculating the value of the indicator, the amount of unrealized losses/gains based on changes in the value of debt instruments that are valued at fair value through other results in accordance with IFRS 9 to which it was applied is excluded reduction factor of 70%.

The adoption of the aforementioned Decision was initiated by the observed decrease in regulatory capital at the level of the banking sector in the period from September 30, 2021 to March 31, 2022, where the key reason was identified as a significant increase in accumulated unrealized losses based on the decrease in the fair value of the debt securities portfolio from values that are valued at fair value through other results in accordance with IFRS, due to the increase in market interest rates.

According to the Business Policy for 2022, it is planned to maintain the daily liquidity indicator at a level above 1.20, as well as a narrower liquidity indicator at a level above 0.90. The mentioned goals were realized, bearing in mind the fact that on 31.12.2022. the value of the daily liquidity indicator was 1.95, and the narrower liquidity indicator was 1.7.

3. BALANCE SHEET

3.1 Assets

As of December 31st 2022, the Bank's total assets amounted to EUR 960,266 thousand and accounted increase of 13.16% compared to the end of 2021, or by EUR 111,654 thousand.

The highest growth, both in percentage (71.61%), and in absolute amount (EUR 77,281 thousand) was achieved in the position of Cash, cash equivalents and assets held with the central bank and is primarily the result of recapitalization in the amount of 50 million euros realized in November 2022. year by the sole shareholder of the bank, HALKBANK Turkiye.

Considering that the interest rates, on the secondary market, on debt securities issued by the Republic of Serbia, which make up the largest part of the "Financial assets" position, had a growing trend almost throughout 2022, there was a drop in their fair value.. In addition to the above, the reduction of this position by 15.1% was influenced by the collection of overdue coupons as well as the collection of principal of overdue bonds.

Despite the unfavorable macroeconomic circumstances, in 2022 the Bank achieved growth in its client loan portfolio in the amount of 7.88%. Growth was achieved both in retail segment and in corporate segment.

(in EUR thousand)

ASSETS	31.12.2021	31.12.2022.	Plan 2022	% of change
Cash, cash equivalents and assets held with the central bank	107,919	185,200	99,000	71.61%
Financial assets*	121,461	103,104	150,000	-15.11%
Loans to banks and other financial organizations**	32,508	34,663	29,000	6.63%
Loans to clients**	560,229	604,395	753,620	7.88%
Intangible assets, property, plant and equipment and investment property	19,773	23,403	49,932	18.36%
Other assets***	6,722	9,501	4,568	41.34%
Total assets	848,612	960,266	1,086,120	13.16%

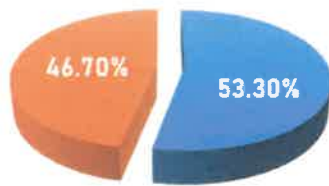
* The position "Financial assets" consists of pledged financial assets, receivables from derivatives and securities from official Balance sheet.

** The positions of „Loans to clients“ and „Loans to banks and other financial organizations“ differ from the positions „Loans and receivables from clients“ and „Loans and receivables from banks and other financial organizations“ presented in the official Balance sheet form for the amount of claims for accrued interest, fees and accrued interest receivable and accrued income for EIR compensation, shown in the „Other assets“ position. Position „Other assets“ includes position „Deferred tax assets“ from official Balance sheet form.

*** The position „Other assets“ includes position „Deferred tax assets“ from official Balance sheet form.

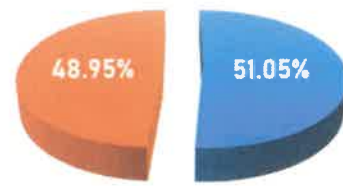
The following graphs present the currency structure of assets as at 31.12.2021. and 31.12.2022.

**Structure of Assets
31.12.2021**



■ RSD ■ FX

**Structure of Assets
31.12.2022**



■ RSD ■ FX

3.1.1 Loans to clients

In accordance with the strategy of the Bank, the main focus is on achieving maximum customer satisfaction, development of innovative products and services, improvement and digitalization of processes with a constant emphasis on raising business efficiency.

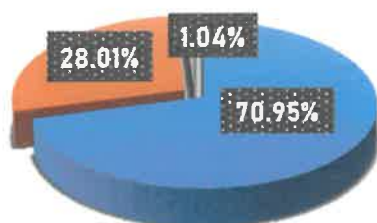
The structure of position Loans to clients as of December 31st 2021 and December 31st 2022 is given in the following table:

	31.12.2021.	31.12.2022.	Plan 2022	(in EUR thousand) % of change
Loans to clients - net	560,229	604,394	753,620	7.88%
Corporate clients without NPL	397,479	433,304	541,020	9.01%
Retail clients without NPL	156,908	167,143	203,800	6.52%
NPL (net)*	5,842	3,947	8,800	-32.44%

* NPL position refers to net receivables from problematic customers, without receivables for interest and fee

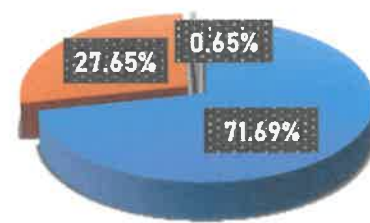
The Bank's net loan portfolio in 2022 increased by 7.88%, i.e. EUR 44,165 thousand. In addition to the growth of the loan portfolio, compared to the end of 2021, a reduction in the net amount of NPL loans by 32.44% was achieved, as a result of a very active approach to their collection, both through the taking of collateral and cash collection.

31.12.2021



■ Corporate ■ Individuals ■ Net NPL

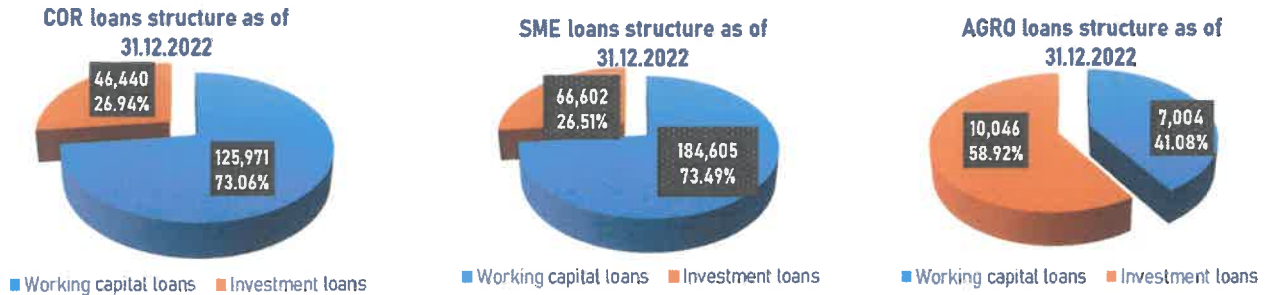
31.12.2022



■ Corporate ■ Individuals ■ Net NPL

Gross loans – Corporate

Gross corporate loans, including gross NPL, as of December 31st 2022 amounted to EUR 440,668 thousand, with growth of 7.6% comparing to the end of 2021. In the following graphs, structure of these loans is presented:



The most important activities of Corporate and SME Marketing Division during 2022 were as follows:

- Bank realized EUR 260.7 million in Corporate, SME and Agro segments through standard loan products, as well as certain programs and actions. The focus was on the standard loan products, credit lines in cooperation with SEF foundation, Micro loans campaign FRK investment loans campaign in cooperation with the National Bank of Serbia, as well as lending to Agro clients.
- In the first half of 2022, the Bank signed an agreement with the Ministry of Agriculture regarding subsidized loans for working capital and agricultural equipment. This is the fifth consecutive year of the Bank's participation in the program through which significant results have been achieved through lending to Agro clients. In addition, the Bank has started the cooperation with Ministry of agriculture, forestry and water management, regarding the World Bank-funded Competitive Agriculture Project, for grants approval in agriculture. Targeted group are commercial and market oriented agriculture households which are not fulfilling criteria for using Europe Union funds.
- During the third quarter of 2022, the Bank completed all necessary analysis and preparations for the introduction of the

new credit product "Project Financing" into the Bank's offer for the business client segment. Project financing is the financing of legal entities for special purposes (so-called SPV) for the purpose of development, construction or refinancing of previous investments in development and construction, where the source of loan repayment is inflow based on the sale, lease and/or exploitation of the financed project.

The expected positive effects on the Bank's operations in the event of the introduction of a new product into the Bank's offer are as follows:

- the offer in the business client segment will become more competitive on the market
- diversification of the existing loan portfolio
- increasing the volume and number of housing loans
- increase in the bank's loan portfolio covered by solid collateral
- transformation from short-term to long-term exposures
- better risk control.

Complete documentation and results of the analysis conducted, were sent to the National Bank of Serbia and approval for the introduction of the new product was obtained.

Gross loans – Retail

Gross retail loans, including gross NPL, as of December 31st 2022 amounted to EUR 170,080 thousand with the following structure:

Loan type	(in EUR thousand)		
	31.12.2021	31.12.2022	% of change
Cash loans	80,504	81,817	1.63%
Housing loans	69,648	79,141	13.63%
Consumer loans	5,467	4,413	-19.28%
Allowed overdraft	1,182	1,277	8.04%
Other	2,530	3,432	35.65%
Total	159,331	170,080	6.75%

Retail Marketing and ADC Division realized following activities during 2022 with an aim to launch new products and services, to increase portfolio and profitability:

- The loan portfolio grew by around EUR 10.5 million since the beginning of the year, or 6.51%. The main driver of growth was housing loans (13.38%, or about EUR 9.5 million). In parallel with the further growth of the portfolio, there was also an increase in interest income, which in the observed period of 2022 increased by 13.04% compared to the previous year.
- In addition, the number of clients, salary and pension recipients continued to grow and the growth percentage is around 6.7%. About that, the growth of income from fees for monthly account maintenance, i.e. current account packages, continued. The income from the maintenance of the current account package in 2022 compared to the same period last year increased by 16.41%.
- The campaign for approval of loans and credit cards "HALK PACKAGE Tailored for you" for employed natural persons continued. The campaign contains 4 products:
 - o cash loan/loan for refinancing
 - o current account package – Silver or Gold
 - o allowed overdraft on the current account
 - o credit card – Mastercard World
- In order to support colleagues from the newly opened branch in Vranje and Sremska Mitrovica in the acquisition of new clients, we launched the "Welcome Campaign" - VIP conditions for cash and refinancing loans for employed individuals in the territory of the municipalities of Vranje and Sremska Mitrovica.
- The offer of cash loans for pensioners continued.
- Considering market trends, almost all interest rates included in the Catalog of credit products were changed from fixed to variable during the first half of 2022. However, due to market demands and a significant increase in interest rates and in connection with the change in BELIBOR, clients mostly requested the offer of cash loans with fixed interest rates, so in the second half of November we adopted the campaign of Cash and refinancing loans with a fixed interest rate, which lasted until the end of 2022.
- In addition, great importance and attention is devoted to the further growth of the deposit base, so the Bank has been in an aggressive campaign to collect client deposits since August 2022. The offer was adapted to the market conditions so that significant activity both on the PR side and in the Bank's business network in this period collected a new EUR 30 million of retail deposits. The biggest growth was achieved in term retail deposits in EUR currency, which the Bank set as the most important goal in this period.

- For the sake of more complete monitoring of active clients, the definition of "active client" has been improved.

An active population client is a client who cumulatively meets the following conditions:

1. To be the recipient of a salary or pension
 2. To have a loan regardless of the amount or to have a fixed-term deposit in the amount of at least EUR 10,000
 3. To use any two of the following products: permitted current account overdrafts, the Bank's electronic service, debit card, credit card, individual insurance, or is a user of checks.
- Special conditions were approved - Tariff of fees for providing services to individuals, Paralympians, medal holders from the Paralympic Games, VIP clients and employees of the Bank.
 - After the approval of the new product by the National Bank of Serbia, at the beginning of September, Halkbank has included in its offer a modern solution for accepting payments by payment cards at merchants' online stores. As online payments are becoming more and more popular and

preferred by consumers, the Bank offers all interested merchants the possibility of accepting all types of payment cards at online stores, including advanced functionalities such as the option of saving cards for future payments (card on file), the option of automatic recurring payment (recurring payment), payment by link option and 3D Secure technology of the latest generation.

- A new category - "Number of products per client" was successfully implemented, thereby increasing the sales network's awareness of the importance of cross-selling, which aims to increase client satisfaction and the Bank's profitability.
- Finally, the plan is to further expand the Bank's business network through the opening of new branches and branch offices, and the necessary market analysis is carried out regularly. After the opening of new branches in Preševo, Vranje and Sremska Mitrovica and the relocation of the branch in Leskovac, in the next year it is planned to open 5 new business units, of which the first two will continue to cover the territory of Belgrade.

3.2 Equity and Liabilities

Total liabilities as of December 31st 2022 amounted to EUR 960,266 thousand with the following structure:

LIABILITIES	(in EUR thousand)			
	31.12.2021.	31.12.2022.	Plan 2022	% of change
Deposits from banks and other financial organizations**	39,157	43,025	152,997	9.88%
Deposits from other clients**	586,093	644,830	690,000	10.02%
Funds borrowed***	58,594	53,066	70,000	-9.43%
Other liabilities****	27,608	34,994	14,624	26.75%
Total liabilities	711,452	775,915	927,621	9.06%
Share capital	106,301	156,515	106,320	47.24%
Profit of the current year	7,564	10,936	15,123	44.585%

Undistributed profit from previous years	5	5	7,364	0.00%
Reserves	23,290	16,897	29,692	-27.45%
Total capital	137,160	184,351	158,499	34.41%
Total liabilities	848,612	960,266	1,086,120	13.16%

* The position "Reserves" shows Reserves from profit in net values and Revaluation reserves, i.e. Unrealized losses. By the decision of the Bank's Assembly dated April 26, 2022. in 2021, the Bank's profit in the amount of EUR 7,564 thousand was allocated to the profit reserve position. In addition, there was an increase in unrealized losses as a consequence of the increase in interest rates on the market of debt securities issued by the Republic of Serbia, which led to a decrease in the fair value of the mentioned securities in the Bank's books.

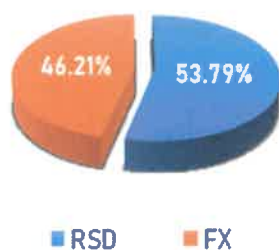
**The positions "Deposits from other clients" and "Deposits from banks and other financial organizations" differ from the positions "Deposits and other liabilities due to customers" and "Deposits and other liabilities to banks, other financial institutions and the central bank" presented in the official form of the Balance Sheet, for the amount of liabilities based on interest and fees, accrued liabilities for accrued interest and other financial liabilities to clients, which are presented in the position "Other liabilities".

*** The position "Received loans" shown in the overview is shown without accrued liabilities for accrued interest and accrued expenses for liabilities stated at amortized value using the effective interest rate, which are part of the total amount of loans received from customers and banks shown in the Bank's financial statements, which are shown in the overview under the position "Other liabilities". This position includes received loans recorded on account 508 regardless of the creditor's sectoral structure.

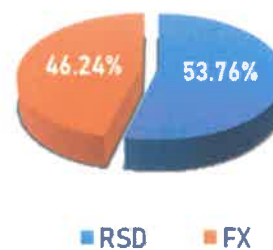
**** The position "Other liabilities" additionally contains the position "Provisions" from the official form of the Balance Sheet.

The following graphs present the currency structure of liabilities as at 31.12.2021. and 31.12.2022:

**Structure of liabilities
31.12.2021**



**Structure of liabilities
31.12.2022**



3.2.1 Deposits from banks, other financial organizations and central bank

The structure of deposits from banks, other financial organizations and central bank and comparative analysis as of December 31st 2021 and December 31st 2022 is presented in the following table:

	(in EUR thousand)		
Deposits from banks and other financial organizations	31.12.2021.	31.12.2022.	% of change
Transaction deposits	632	1,397	121.04%
Other deposits	38,525	41,628	8.05%
Total	39,157	43,025	9.88%

Within the position, other deposits are deposits of insurance companies and "money market" deposits of domestic and foreign banks.

3.2.2 Deposits from clients

The structure of deposits from clients and comparative analysis by segments as of December 31st 2021 and December 31st 2022 is presented in the following tables and graphs:

(in EUR thousand)

Deposits from clients	31.12.2021.	31.12.2022.	Plan 2022	% of change
Transaction deposits	276,415	301,549	335,000	9.09%
Other deposits	309,678	343,281	355,000	10.85%
Total	586,093	644,830	690,000	10.02%

Total increase of deposits from clients in 2022 amounted to 10.02%.

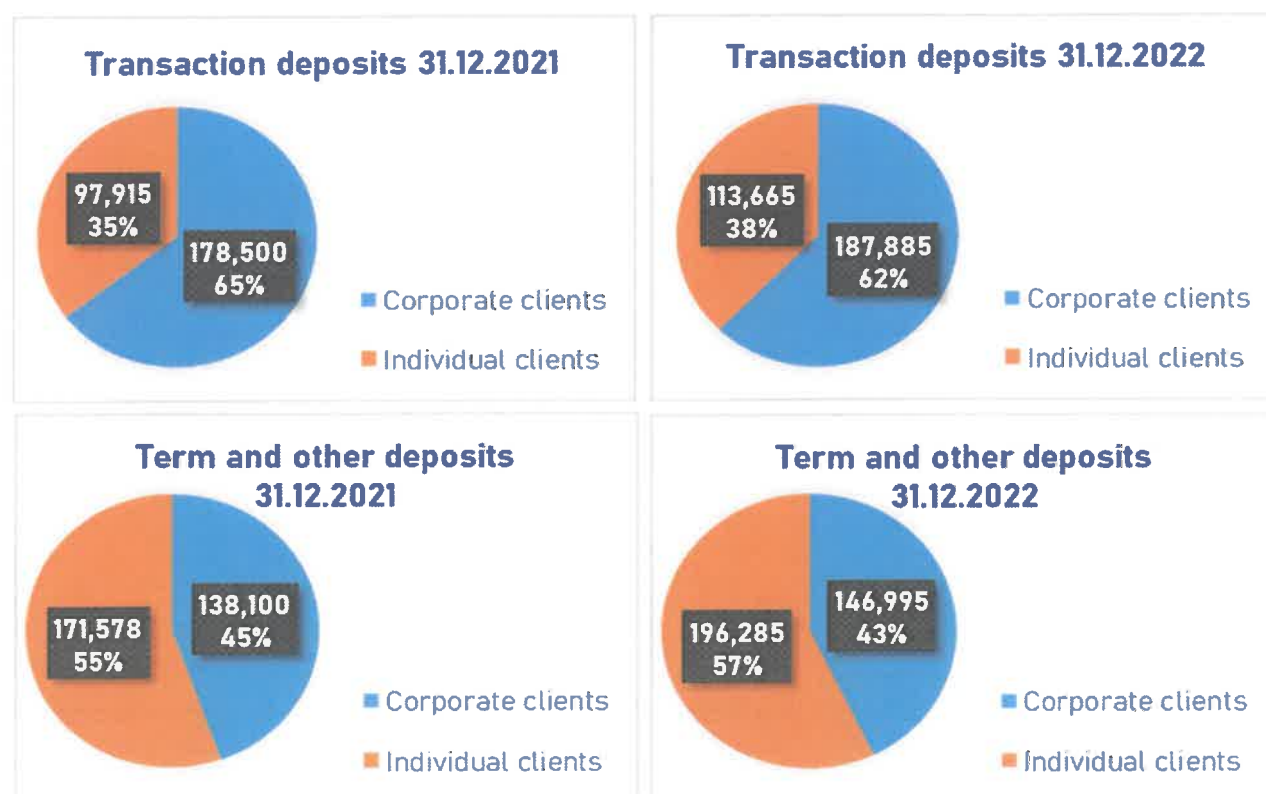
(in EUR thousand)

Deposits from clients	31.12.2021.	31.12.2022.	Plan 2022	% of change
Corporate clients	316,600	334,880	380,000	5.77%
Retail clients	269,493	309,950	310,000	15.01%
Total	586,093	644,830	690,000	10.02%

By constant monitoring of market trends, individual and proactive approach to clients, the Bank increased the level of deposits from corporate clients by 5.77%, and the level of deposits from retail clients by 15.01%. The significant growth of retail deposits is primarily the result of the campaign organized in the second half of the year.

The structure deposits from clients is presented in the following graphs:

(in EUR thousand)



Funds borrowed

	(in EUR thousand)		
Borrowed loans in foreign currency	31.12.2021.	31.12.2022.	% of change
- EIB	37,731	32,113	-14.89%
- Demir-Halk Bank (Nederland) N.V.	8,500	7,000	-17.65%
- EAR long-term revolving line	7,275	11,012	51.37%
- European Fund for Southeast Europe	1,429	0	-100.00%
- GGF	3,529	2,941	-16.66%
- Government of Republic of Italy	130	0	-100.00%
Total	58,594	53,066	-9.63%

During the 2022, the Bank paid the principle of long-term loans to IFIs on a regular basis in the amount of EUR 12,592 thousand. In the same period, the Bank withdrew EUR 7,064 thousand of IFI's funds.

3.2.3 Equity

The capital of the Bank as of December 31st 2022 amounted to EUR 184.351 thousand and comprised of the following:

	(in EUR thousand)		
Equity	31.12.2021	31.12.2022.	% of change
Share capital – ordinary shares	62,409	84,277	35.04%
Share capital – preference cumulative shares	11	11	0.00%
Share capital - preference non-cumulative shares	5,103	5,114	0.22%
Share premium***	38,778	67,112	73.07%
Revaluation reserves**	-1,701	-15,744	825.57%
Reserves from profit*	24,991	32,640	30.61%
Undistributed profit from previous years	5	5	0.00%
Profit of the current year	7,564	10,936	44.58%
Total	137,160	184,351	34.41%

* By the decision of the Bank's Assembly dated April 26, 2022. in 2021, the Bank's profit in the amount of EUR 7,564 thousand was allocated to the profit reserve position.

** The decrease in revaluation reserves, i.e. the increase in unrealized losses, is a consequence of the increase in interest rates on the market of debt securities issued by the Republic of Serbia, which led to a decrease in the fair value of the mentioned securities in the Bank's books.

***In November 2022, the Bank's capital was increased by issuing the XXXIV issue of shares, i.e. 254,940 ordinary shares with a nominal value of RSD 10,000 per share and an issue value of RSD 23,000 per share were issued, which increased the Bank's total capital by RSD 5,863,620 thousand. The buyer of the shares is the sole shareholder of the Bank, HALKBANK Turkiye, which after this transaction became the owner of 1,048,894 shares of the Bank.

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

Information on shares	31.12.2021.	31.12.2022.
Number of shareholders	1	1
Number of shares	793,954	1,048,894
Nominal value per share in RSD	10,000	10,000
Net book value per share in RSD	20,312.91	20,620.13

4. OFF-BALANCE SHEET ITEMS

One of the significant segments of business with clients, in which the Bank achieves continuous growth and which are a stable source of income for the Bank, are certainly performance and payable guarantees and letters of credit. On this position during the 2022, there is a growth rate of 18.98% compared to the end of 2021. The structure of off-balance sheet items as of December 31st 2021 and December 31st 2022 is presented in the following table:

Off-balance sheet items	31.12.2021.	31.12.2022.	(in EUR thousand)
			% of change
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	173,871	207,332	19.24%
Operations for and on behalf of third parties	2,085	2,000	-4.08%
Derivatives (SWAP)	4,009	34,926	771.19%
Other off-balance sheet items	1,194,164	994,183	-16.75%
Total	1,374,129	1,238,441	-9.87%

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as of December 31st 2021 and December 31st 2022:

Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	31.12.2021.	31.12.2022.	(in EUR thousand)
			% of change
Performance guarantees	114,113	130,884	14.70%
Payment guarantees	38,030	52,501	38.05%
Unused limits which cannot be revoked	15,603	18,171	16.46%
Issued foreign currency letters of credit with Banks' confirmation	5,750	4,000	-30.43%
Issued uncovered letters of credit	375	1,776	373.60%
Total	173,871	207,332	19.24%

In the following table, position “Other off-balance sheet items” is presented.

(in EUR thousand)			
Other off-balance sheet items	31.12.2021.	31.12.2022.	% of change
Received fixed assets (buildings, cars, land etc.) as collateral in favor of the Bank	818,684	621,831	-24.05%
Commitments for framework loans and facilities	96,157	113,951	18. 51%
Calculated suspended interest	44,913	44,589	-0.72%
Financial assets pledged as collateral	0	0	-
Other off-balance sheet items	234,410	213,812	-8.79%
Total	1,194,164	994,183	-16.75%

5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Income Statement for the period from January 1st to December 31st 2022 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank realized a profit of EUR 10,936 thousand at the end of the 2022.

(in EUR thousand)					
Income Statement	2021	2021Reclassi fied	2022	% of change	Plan 2022
Interest income	26,411	26,411	32,746	23.99%	35,135
Interest expense	5,234	5,234	7,556	44.36%	7,003
Net interest income	21,177	21,177	25,190	18.95%	28,132
Fee and commission income	12,867	12,867	18,282	42.08%	18,633
Fee and commission expense	2,885	2,885	4,869	68.77%	3,703
Net fee and commission income	9,982	9,982	13,413	34.37%	14,930
Net trading income	1,196	1,196	110	-90.80%	1,200
Other operating income	331	331	637	91.29%	320
Net income/(losses) on impairment of financial assets	-1,410	-1,410	-1,314	-6.81%	-1,900
Total net operating income	31,276	31,276	38,036	21.61%	42,682
Salaries, salary compensation and other personal expenses	9,571	10,956	12,588	14.90%	10,128
Depreciation costs	3,947	3,947	4,447	12.67%	4,697
Other expenses	9,709	8,324	8,972	7.78%	10,889
Total operating expenses	23,227	23,227	26,007	11.97%	25,714

NET PROFIT BEFORE TAX	8,049	8,049	12,029	49.41%	16,968
PROFIT TAX	-498	-498	-1,116	-	-1,845
PROFIT FROM DEFERRED TAXES	13	13	23	-	0
NET PROFIT BEFORE TAX	7,564	7,564	10,936	58.99%	15,123

*The item "Other operating income" consists of the items "Other operating income" and "Other income" from the official income statement form.

**In the course of 2022, the salary contribution borne by employers in the amount of EUR 1,385 thousand was reclassified from the position of Other business expenses to the position of Salary expenses, salary compensation and other personal expenses at the request of the external auditor.

In the course of 2022, there was a significant increase in both BELIBOR and EURIBOR rates. Primarily as a result of the growth of the mentioned rates, but also as a consequence of the growth of the loan portfolio, the net interest income increased by 18.95%, i.e. by EUR 4,013 thousand. The net interest margin increased from 3.39% as of 31.12.2021 to 3.68% as of 31.12.2022. Net income from fees and commissions increased by 34.37%, i.e. by EUR 3,431 thousand. The biggest contribution to this increase was the growth of income from payment transaction fees (increase of EUR 2,527 thousand, i.e. 35.66%), as well as the growth of income from payment card fees (increase of EUR 1,722 thousand, i.e. 82.51%). The growth of payment card fees is, among other things, the result of the expansion of the POS terminal network. According to the measures of the NBS, all banks that increased the fees for payment services to citizens from January 1, 2021, agreed to reduce the fees for payment services by 30% or to return them to the level before their increase. The NBS has also decided that all banks must include the basic package for a current account at a price of 150 dinars in their offer.

Total operating expenses are higher by 11.97%, i.e. by EUR 2.780 thousand compared to 2021. The largest participation in the total operating costs is recorded by the salaries of employees with 48.4% (this amount also includes provisions based on bonuses for the 13th and 14th salary for the contribution of employees to the good business results of the Bank, as well as other short-term and long-term provisions based on future payments to employees in accordance with IAS 19), then depreciation costs at 17.1%, as well as the premium paid to the Deposit Insurance Agency at 6.4%.

The largest decrease was recorded in provisions for court disputes (reduction of costs in the amount of EUR 636 thousand, i.e. 92% compared to 2021), which is a consequence of the changed position of the Supreme Court of Cassation in relation to legal proceedings brought by natural persons against banks, and refer to the collection of fees for the processing of loan applications and the release of loans into the exchange rate. In addition, the costs of legal services (costs of lawyers' services, court fees and litigation costs in the amount of the difference between the Bank's obligation according to the court decision and the reserved amounts) were reduced by EUR 421 thousand, or 57%. On the other hand, the increase was recorded by Salary expenses, salary compensation and other personal expenses of employees by 14.90%, i.e. EUR 1,632 thousand, which is the result of several factors, namely the 14th salary paid for 2021 at the expense of the expenses of 2022, formed provisions for the 13th and 14th salary for 2022, as well as the increase in the number of employees. At the same time, due to the increase in the client's deposit base, the costs of deposit insurance increased by EUR 307 thousand, i.e. by 23% compared to the previous year, then the costs of consulting services by EUR 286 thousand, the increase of which was caused by services related to the development of the internal rating methodology of clients, as well as services related to the implementation of the new Core system, and PR costs for EUR 240 thousand, or 89% due to advertising during the first half of the year.

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

		(in EUR thousand)	
Interest income	2021	2022	% of change
Corporate clients	13,675	17,959	31.33%
Retail clients	8,668	9,798	13.04%
Securities	3,998	4,222	5.60%
Other	70	767	995.71%
Total	26,411	32,746	23.99%

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

		(in EUR thousand)	
Fee and commission income	31.12.2021.	31.12.2022.	% of change
Fees from payment operations	7,087	9,615	35.67%
- <i>Retail Segment</i>	382	466	21.99%
- <i>Corporate Segment</i>	4,950	6,867	38.73%
- <i>Banking Segment</i>	324	617	90.43%
- <i>Packages maintenance fees</i>	1,430	1,665	16.43%
Fees from guarantees	1,922	2,328	21.12%
Fees from FX changes	1,270	2,006	57.95%
Fees from payment cards	2,087	3,809	82.51%
- <i>Merchant service charges</i>	1,239	2,312	86.60%
- <i>Interchange fees</i>	355	806	127.04%
- <i>Payment cards and other</i>	492	691	40.45%
Other fees	501	524	4.59%
Total	12,867	18,282	42.08%

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

		(in EUR thousand)	
Interest expense	2021	2022	% of change
Deposits – corporate	2,261	2,713	19.99%
Deposits – retail	1,564	2,443	56.20%
Banks deposits	849	1,623	91.17%
Borrowings IFI's	436	654	50.00%
IFRS 16	124	123	-0.81%
Total	5,234	7,556	44.36%

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

(in EUR thousand)			
Fee and commission expenses	2021	2022	% of change
Payment operations	1,312	1,870	42.53%
Fees from payment cards	1,399	2,742	96.00%
Credit bureau	124	117	-5.65%
Credit lines	0	2	-
Other fees	50	138	176.00%
Total	2,885	4,869	68.77%

6. CASH FLOWS

Cash flows from operating activities during the 2021 and 2022 are presented in the table below:

(in EUR thousand)			
Cash inflows from operating activities	I - XII 2021	I - XII 2022	Change
Interest	28,130	33,609	5,479
Fees	12,851	18,338	5,487
Other operating income	112	93	-19
Dividend and share in profit	5	4	-1
Total cash inflows	41,098	52,044	10,946
Cash outflows from operating activities			
Interest	4,997	6,765	1,768
Fees	2,859	4,854	1,995
Salaries	8,883	11,717	2,834
Tax and contribution	1,832	478	-1,354
Other operating expenses	7,595	8,626	1,031
Total cash outflows	26,166	32,440	6,274
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities	14,932	19,604	4,672

Cash inflows from operating activities before increase/decrease in financial assets or financial liabilities during 2022 increased by EUR 10,946 thousand comparing to the same period in 2021.

Cash outflows from operating activities before increase/decrease in financial assets or financial liabilities increased during 2022 by EUR 6,274 thousand comparing to the same period in 2021. Decrease of outflows in 2022 compared to 2021 deriving from Tax and contributions resulted from reclassification of contributions borne by the employees from the position „Tax and contributions“ to position „Salaries“.

Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2022 amounted to RSD 19,604 thousand, which is increase of RSD 4,672 thousand comparing to same period in 2021.

7. INVESTMENT PLAN

During the 2022 total investments in fixed assets (including the right of use in accordance with IFRS 16 to which the amount of EUR 1,785 thousand refers), investment property and intangible investments amounted to EUR 8,650 thousand.

Changes at these balance sheet items are presented in the following table: (in EUR thousand)

Investments*	Buildings	Equipment	Investment property	Intangible investments	Rents in IFRS 16 scope	Total	Plan for 2022
Balance 31.12.2021.	1,750	5,393	1,077	6,097	5,456	19,773	19,773
Estimated balance on 12/31/2021. (budget)	1,750	5,129	1,078	7,287	5,456	20,700	20,700
Total increase:	3	2,671	717	3,506	1,785	8,682	33,929
IT	0	1,411	0	3,506	0	4,917	12,456
Adaption of business premises	3	376	0	0	0	379	20,700
Other	0	884	685	0	0	1,569	353
IFRS 16 – rents (building and cars)	0	0	0	0	1,785	1,785	420
Revaluation	0	0	0	0	0	0	0
Reclassification	0	0	31	0	0	31	0
Total decrease:	77	1,513	663	942	1,857	5,052	4,697
Depreciation	81	1,522	23	954	0	2,580	2,775
Depreciation – IFRS 16	0	0	0	0	1,867	1,867	1,922
Sell	0	0	601	0	0	601	0
Other	0	0	41	0	0	41	0
Disposal and retirement	0	1	0	0	0	1	0
FX effects	-4	-10	-2	-12	-10	-38	
Balance 31.12.2022.	1,676	6,551	1,131	8,661	5,384	23,403	49,932

* Presented in net amount as opposed to the way it was presented in the Notes to the Financial statements

The Bank's investments in 2022 related to the acquisition of POS terminals and ATMs with the aim of expanding their network, investments in the development of projects related to business with payment cards, which aim at digitalization and improvement of the quality of services provided to clients, investments in IT equipment, both the renewal of existing outdated equipment and the acquisition of equipment for new employees, investments in security equipment and other equipment necessary for the smooth operation of branches, as well as investments in the development of existing and acquisition of new software solutions and the acquisition of licenses for them. Part of the funds was allocated for the renovation of the branch in Leskovac, which will be located at a new address from 2022, as well as for the adaptation of office space for three new branches that were opened in 2022 (Preševo, Vranje and Sremska Mitrovica). Given that the process of implementing the new core system continued in 2022, part of the salary costs of the employees working on this project were capitalized in accordance with IAS 38.

8. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

As of December 31st of 2022, 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 at December 31 st 2022
Regulatory Capital - NBS temporary measure*	Min 10,000,000 €	175,180,689 €
Regulatory Capital - regular calculation	Min 10,000,000 €	163,688,022 €
Capital adequacy ratio - NBS temporary measure*	min 8% (SREP 14.98%)	29.99%
Capital adequacy ratio - regular calculation	min 8% (SREP 14.98%)	28.02%
Foreign exchange risk ratio	max 20%	0.80%
Liquidity ratio	Min 1	1.95
Narrow liquidity ratio	Min 0.7	1.70
Liquidity coverage ratio	Min 100%	147.70%
Exposure to one person or group of related persons	max 25%	12.65%
Sum of large exposures	max 400%	34.43%
Investment in non-financial sector	max 10%	0%
Bank's investments into non-financial sector, fixed assets and investment property	max 60%	8.42%

**The National Bank of Serbia on June 29, 2022, adopted the Decision on a temporary measure related to the calculation of the bank's capital, in accordance with which the bank can exclude from the calculation of the core capital the amount of the temporary regulatory adjustment, i.e. the amount of unrealized losses/ gains based on changes in the value of debt instruments that are valued at fair value through other results in accordance with IFRS 9 to which a reduction factor of 0.70 was applied.*

During the last quarter of 2022, based on the Decision of the Bank's Shareholders' Assembly on the issuance of the XXXIV issue of shares - ordinary shares (no. 3776, October 21st, 2022), and the consent of the National Bank of Serbia (Decision no 11936, December 13th, 2022), an increase of the share capital of the Bank was realized in in the amount of EUR 50 million.

In addition, by the Decision of the Bank's Shareholders' Assembly, held on April 26th, total profit achieved in 2021 in the amount of EUR 7.5 million is included in the Bank's capital.

Respecting the above mentioned, on December 31st, 2022 the Bank achieved a capital adequacy ratio of 29.99% (23.64% on December 31st, 2021), which is significantly higher than the regulatory limits.

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, National Bank of Serbia (IO NBS no. 30, April 07th 2022) defines ratio of Capital and Eligible Liabilities to total liabilities for the Bank equal to 6.36%, which was previously at level of 7.97%. As per the last available

calculation from June 30th 2022, the ratio of the Capital and Eligible Liabilities to total liabilities of the Bank was 18.80%, which is significantly above the defined limit. Based on the portfolio structure, it is expected that defined ratio will be on the similar level with the next calculation.

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) – Green for Growth Fund (GGF), and European Fund for Southeast Europe (EFSE) the Bank is required to comply with agreed financial covenants until the final repayment of the loans. As of December 31st, of 2022, the Bank is aligned with all indicators.

III RISK MANAGEMENT ADEQUACY

Fundamentals of the risk management process

Having in mind the activity it is engaged in, i.e types of realized business processes, the Bank is inclined to take different types of risks in its business and therefore the presence of risk is a general characteristic of different business activities of the Bank. In this regard, the Bank has established a comprehensive and reliable risk management system based on its clear risk management strategy and included in all its business activities, thus ensuring compliance of the Bank's risk profile with its identified risk appetite.

Risk management strategy is based on a conservative approach, which implies restrictive takeover of all the risks that Bank is or may be exposed in its operations. The affirmation of this principle is in line with a key strategic business objectives such as achieving positive financial results and preserving the capital base, i.e. improving the market position of the Bank.

The functioning of the risk management system is regulated by the adopted internal policies and procedures for each material risk, and is subject to independent assessment by internal audit.

The risk management system is designed in accordance with the size and organizational structure, nature, size and complexity of the Bank's business activities, i.e. its risk profile.

Pursuant to the Law on Banks and the National Bank of Serbia (hereinafter: NBS) Decision on Risk Management, in Halkbank a.d. Beograd (hereinafter: the Bank) the most significant risks have been identified to which the Bank is exposed in its operations, namely:

- Liquidity risk;
- Credit risk, including residual risk, dilution risk, settlement/delivery risk, counterparty risk, credit risk induced by interest rate risk, FX credit risk, portfolio currency structure risk and concentration risk;
- Risk of losses from external influences (macroeconomic risk);
- Interest rate risk;
- Foreign exchange risk, pricing risk and other market risks;
- Outsourcing risk;
- The risk of money laundering and terrorist financing;
- The risk of introducing new products / services;
- Risks of investing in other legal entities and fixed assets of the Bank;
- Risks relating to the country of origin of the entity to which the Bank is exposed (country risk);
- Operational risk, including legal risk;
- Reputation risk;

- Strategic risk;
- Risk of compliance of the Bank's operations, including risk of regulatory sanctions, risk of financial losses and reputation risk;
- Environmental and social risk.

The Bank's targets in risk management are minimization of negative effects on the financial result and equity, based on the Bank's exposure to the aforementioned risks, with obeying defined risk appetite frame and the maintenance of required capital adequacy level.

During 2022, the Bank continued to strengthen its risk management system by improving internal documents, methods and processes that are in line with regulatory changes and recommendations of the internal and external audit and the National Bank of Serbia.

Risk management framework

The risk management system established in the Bank includes the following:

- Risk management strategies and policies, as well as procedures, guidelines and methodologies for risk identification, measurement, assessment and managing risks;
- Risk appetite - The Bank's intention to take risks to realize its strategies and policies (risk structure), as well as to determine the acceptable level of risk assumed (risk tolerance). The optimal, acceptable level of risk that the Bank intends to assume is quantified through Risk Preference;
- Risk profile - the Bank's assessment of the structure and levels of all risks exposed or likely to be exposed in its business;
- Risk appetite framework - The overall approach, including strategies, policies, procedures, processes, controls and systems through which the risk appetite is established, communicated and monitored. It includes a statement of appetite risk, risk limits and an overview of the roles and responsibilities of organizational parts of the Bank that monitor the application and follow-up of the RAF. RAF takes into account material risks for the Bank, as well as for the good business reputation that the Bank enjoys in relation to customers, depositors, creditors and the market in general. RAF is in line with the Bank's business policy.
- Risk appetite statement - Represents an aggregated level of risk that the Bank is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative descriptions, as well as quantitative measures expressed in relation to income, capital, risk measurement, liquidity and other relevant indicators.;
- Internal organisation / organisational structure ensuring that risk management activities and administration activities are functionally and organisationally separated from the activities of assuming risk, with clearly defined segregation of operations and duties of staff in order to avoid any conflict of interests;
- Effective and efficient risk management process, including mitigation, monitoring and control of the risks to which the Bank is or may be exposed;
- Internal control system as a group of processes and procedures established for the purpose of appropriate risk control, monitoring effectiveness and efficiency of business, reliability of financial and other data and information of the Bank, as well as their adjustment to regulations and internal documents with the aim to ensure safety and stable operations;
- Appropriate information system.

The Bank's Supervisory Board is responsible for establishing a risk management system in the Bank and for supervising such system. The Bank's Supervisory Board is responsible to ensure that the Executive Board identifies risks to which the Bank is exposed and to control such risks pursuant to adopted policies and procedures.

The Executive Board implements risk management strategies and policies adopted by the Supervisory Board, adopts procedures for risk identification, measuring, assessment and management, analyses efficiency of their implementation and reports to the Supervisory Board about such activities.

The Audit Committee is responsible for continuous supervision over the implementation of risk management policies and procedures, and the system of internal controls.

Assets and Liabilities Committee (hereinafter: ALCO) is in charge of monitoring the Bank's exposure to risks arising from the structure of its balance sheet receivables and liabilities and off-balance sheet items and it proposes risk management measures.

Relevant Credit Committee make decisions on granting loans and origination of other receivables, as well as on amendments to the conditions of such loans and receivables. Decides on all issues related to collection, including reprogramming and restructuring, and all other issues related to potentially problematic, problematic and contested claims.

The following Bank's organisational units participate in the risk management process: the Risk Management Department, Credit Division, Internal Audit Department and Compliance and AML Department.

Risk Management Department - monitors legislation in the field of risk management, the NBS decisions and internal documents of the Bank and is responsible for their proper implementation; manages risk-weighted assets and off-balance sheet items of the Bank; conducts activities related to the registration, measurement, management and mitigation of credit, market, operational and other risks to which the Bank is exposed.

Credit Division - management of lending operations through established lending procedures, analyzes the financial condition and creditworthiness of corporate and retail clients, evaluates proposed collaterals, monitors placements at the client level in order to identify and mitigate credit risk.

Internal Audit Department - provides the Board of Directors with an independent and objective opinion on issues subject to audit, performs advisory activities aimed at improving the existing system of internal controls and operations of the Bank and provides assistance to the Supervisory Board in achieving its goals, applying a systematic, disciplined and documented approach, risk management, control and process management.

Compliance and AML Department - responsible for the identification and monitoring of compliance risk of the Bank and management of such risk, which in particular includes the risk of sanctions of the regulatory body and financial losses as well as reputational risk.

The risk management process consists of several stages:

- Risk identification;
- Risk measurement and assessment;
- Risk mitigation and mitigation;
- Risk monitoring and risk control;

- Risk reporting.

The process is based entirely on documented policies, guidelines and procedures, which are regularly reviewed in terms of their comprehensiveness, accuracy and quality.

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 impairment provisions pursuant to the IFRS rules.

Structure of gross risk-weighted assets in terms of classification categories
(in EUR thousand)

Classification category	Classified amount as of 31.12.21	% of the share in gross classified assets		Classified amount as at 31.12.22	% of the share in gross classified assets	
A	349,420	40.03%	74.58%	381,757	39.49%	74.30%
B	301,604	34.55%		336,540	34.81%	
V	157,043	17.99%	17.99%	198,281	20.51%	20.51%
G	31,992	3.66%	7.43%	24,504	2.53%	5.19%
D	32,905	3.77%		25,674	2.66%	
Total	872,964	100.00%		966,756	100.00%	

The total balance and off balance sheet assets that are classified increased as of December 31st 2022 compared to the end of 2021, by 10.5%.

The structure of the Bank's portfolio changed in terms of a decrease in the share of placements classified in categories A and B by 0.28 p.p, while the share of placements classified in category V increased by 2.52 p.p. The share of placements in categories G and D also increased by 2.24 p.p.

Portfolio quality as of December 31st 2022 remained in medium risk level, considering that more than 70% of asset, but less than 75%, is classified in categories A and B.

Collection and coverage of NPLs

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

	(in EUR thousand)		
	31.12.2021.	31.12.2022.	Change
NPL portfolio	12,829	8,072	-4,757

NPL as of December 31st 2022 decreased by EUR 4,757 thousand compared to the end of the 2021.

The reduction of NPLs was largely influenced by the collection and accounting write-off of receivables from customers Inter-Kop doo u stečajju and Nissal doo u stečajju, in the total amount of EUR 4,399 thousand.

New exposures that became the NPL during the 2022, amounts to EUR 2,320 thousand, out of which 63% (EUR 1,465 thousand) relates to Corporate and SME clients, and 37% (EUR 855 thousand) to retail customers.

During 2022, the Bank collected EUR 5,051 thousand on the basis of NPLs.

Share of gross NPLs in total gross Bank's loans

Ratio	31.12.2021.	31.12.2022.	Change
Share of NPLs in total loans	2.25%	1.32%	-0.93 p.p.

NPL coverage

Ratio	31.12.2021.	31.12.2022.
Ratio of NPL coverage with Impairment provisions for loans	67.76%	79.49%
Ratio of NPL coverage with NPL Impairment provisions	53.93%	49.96%

In Risk appetite framework, the Bank defined the optimal (target) level for distressed assets (NPE) and non-performing loans (NPL) at a level that is less than 5% and 3%, respectively as well as the NPL coverage ratio which is calculated as a ratio of NPL impairments and non-performing loans (NPL) at the level above than 50%.

On December 31st 2022, the Bank complies with the defined limits of these indicators, except NPL coverage with NPL Impairment provisions ratio.

During the last quarter of 2022, as a result of the collection and accounting write-off of problematic receivables, there was a decrease in NPLs in the amount of EUR 2,156 thousand (21%), which was followed by a decrease of NPL provisions in the amount of EUR 1,700 thousand (30%), which contributed to the achievement below the target values.

Liquidity Risk

The realized value of the Liquidity coverage ratio (LCR) on 31.12.2022. is 147.7%, which is in line with the defined limits established by the Bank's internal acts.

The risk appetite framework defines the optimally acceptable value of the mentioned ratio as a minimum of 120%, and the defined exposure limit is as a minimum of 105%.

It should be noted that the limit for this indicator was exceeded on 30.06.2022 and 31.07.2022, where the indicators were 105.23% and 107.37%, respectively.

In line with Liquidity Contingency Plan, the value of the relevant indicator below 110% indicates a potential liquidity crisis of the Bank (an indicator for early detection of a liquidity crisis).

However, after detailed review and discussion on causes of influence, it was confirmed that the current level of realized liquidity indicators anyhow does not represent a real threat on overall liquidity of the Bank.

The fact that the Bank has contracted credit line in amount of USD 65 million with the parent Bank is providing straight options of controlled liquidity management with instant effect on liquidity indicators improvement, including effects on LCR as well, by withdrawal of tranches with a maturity of more than 30 days.

Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS in the period from 01.01.2022. - 31.12.2022

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of December 31 st 2022	1.95	1.70
Average	1.83	1.56
Maximum	2.33	1.95
Minimum	1.34	1.12
Daily NBS limit	Minimum 0.8	Minimum 0.5
NBS limit on monthly level	Minimum 1	Minimum 0.7

Liquidity ratios of the Bank during the 2022 were in accordance with the prescribed limits by the Decision on liquidity risk management by banks, which was valid on 12/31/2022.

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.-31.12.2022 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	23.73%	34.51%	28.20%	Min 20.00%
Net loans to total deposits ratio	87.82%	93.78%	89.84%	Max 200.00%
Customers' deposits to total deposits ratio	85.89%	94.20%	90.01%	Min 75.00%
Deposit concentration ratio	14.82%	16.50%	16.24%	Max 30.00%

The Bank was within internally prescribed liquidity limits during 2022.

Foreign exchange risk

FX Risk ratio in the period from 01.01. – 31.12.2022.

Value as of December 31 st , 2022	0.80%
Average	2.19%
Maximum	7.02%
Minimum	0.13%
Limit NBS	Max 20%

Foreign currency risk measured by FX Risk ratio predominantly was located in the low risk category during the 2022.

Total net weighted position of the Bank as of December 31st 2022

	(in EUR thousand)
Total net weighted position	-8,725
Equity	175,181
Total net weighted position and equity ratio	4.98%
Internally prescribed maximum	20%

Operational risk

In the period from January 1st to December 31st 2022 in terms of Operational risk, 128 events were reported in the Application of Operational risks. Eighty five of all events of operational risk that were reported referred to cash shortage or surpluses and have been successfully resolved (58 events of cash shortage and 27 events of cash surpluses).

Number of events	128
Cash shortage	58
Cash surplus	27
External frauds	5
Other	38
Net loss in EUR	3,731.09

The Bank performs also risk assessment of Outsourcing processes, based on 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 31st 2022

	(in EUR 000)	% of equity	Limit NBS
Persons related to the Bank	28,667	16.36%	-
Large exposures	60,303	34.43%	Max 400%

* The Bank's exposure refers to exposure after applying credit risk mitigation techniques and deductions, in line with NBS Decision on Risk management.

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 reduced by exposures covered with cash deposits and total regulatory capital.

The policy of credit risk management has determined that the concentration ratio should be maintained at a level below 250%.

	31.12.2021.	31.12.2022.	Preference (target) value
Concentration ratio of 20 largest clients/groups of related parties	133.07%	103.90%	Max 250% of regulatory capital

As of December 31st 2022, the concentration ratio is within an internally defined limit.

Additionally, in order to manage the risk of concentration, the Bank has established exposure limits (balance and off-balance sheet assets that are classified) in relation to certain geographical areas and according to a certain sector/branch of activity, which ensure the diversification of the portfolio. On 31.12.2022. the highest exposure of the Bank in terms of classified on-balance sheet and off-balance sheet activity in relation to the total classified balance sheet and off-balance sheet assets, was in the mining and processing industry sector (20.73%) and in the household sector (19.84%), which is significantly below the internally defined ones. limits of 60% and 25%, respectively. The exposure of the Bank in relation to geographical areas is monitored through the participation of exposures to clients from individual geographical areas in the total classified gross balance sheet assets and off-balance items. The Bank's largest exposure is to clients belonging to the region of Belgrade 35.27% and region of Western Serbia and amounts to 30.54%, which is significantly below the internally defined limit of 50% and 70% respectively.

Exposures of the Bank to retail loans with a contractual maturity of more than 2920 days may not exceed 30% of the Bank's capital determined in accordance with the decision regulating the bank's capital adequacy increased by the amount of all bank liabilities in dinars with a remaining maturity of more than 1825 days. The calculation of the capital amount referred to in the preceding paragraph shall not be subject to the regulatory adjustments and deductions from capital prescribed by the NBS decision regulating the bank's capital adequacy, except for deductions for the loss of the current year and earlier years and for unrealized losses. As of December 31st 2022, concentration risk ratio in retail segment calculated as previously described is 3.84%, which is significantly below the defined limit.

Investment Risk

The Bank did not have investments in non-financial sector as of September 30st 2022. Total investments in entities that are not in financial sector and in fixed assets and investment property were in the category of low risk (below 45% of capital).

Bank's investments into non-financial sector, fixed assets and investment property as of December 31st 2022

	Investments into non-financial sectors	Investments into fixed assets and investment property	Total
Amount (000 EUR)	0	14,742	14,742
Share in equity	0%	8.42%	8.42%
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 country classification regarding the level of country risk and is committed to a system of risk classification by applying categories assigned by international rating agencies (Moody's, Standard&Poors and Fitch).

In the period from 01.01. to 31.12.2022, the Bank had exposures to clients, which operate in countries that are classified as low-risk and medium-risk countries, according to the Classification of official international credit rating agencies and the Bank Procedure.

Bank's exposure towards countries, which are in the category of low risk, is without limits. The country from this category as of December 31st 2022 were Germany, Austria, USA and Czech Republic. Countries in the category of medium risk were Macedonia, Türkiye, Romania, Bosnia, Croatia and Montenegro. Exposure to countries in the category of medium risk was significantly below adopted internal limits during observed period.

Review of countries of clients whose exposure is involved in country risk as of December 31st 2022

Country	Risk category	Limit	Share in Bank's capital
Germany	low	without limit	5.23%
Austria	low	without limit	0.56%
USA	low	without limit	0.45%
Czech Republic	low	without limit	0.06%
Belgium	low	without limit	0.00%
Macedonia	medium	100% regulatory capital	21.71%
Türkiye	medium	100% regulatory capital	27.57%
Romania	medium	20% regulatory capital	3.10%

Bosnia	medium	40% regulatory capital	1.71%
Croatia	medium	10% regulatory capital	0.02%
Montenegro	medium	40% regulatory capital	0.01%
Albania	medium	25% regulatory capital	0.00%
Italy	medium	10% regulatory capital	0.00%

Report on rescheduling of agricultural loans according to the NBS Decision

In order to respond timely and preventatively to all potential challenges from the international and domestic environment, and starting from the economic situation of some agricultural producers, on October 06th 2022, the National Bank of Serbia passed a Decision on Temporary Measures for Banks Aimed at Adequate Management of Credit Risk in Agricultural Loans Portfolio in Conditions of Aggravated Agricultural Production (hereinafter: Decision), which prescribes measures and activities that banks are required to implement to adequately manage credit risk, which means timely identification of potential difficulties for debtors and taking appropriate steps.

The Decision enable the rescheduling of existing liabilities of bank borrowers from the agriculture sector, meaning that those debtors may opt to postpone the settlement of their liabilities under principal from minimum six to 12 months, depending on their preferred grace period within the rescheduling.

The rescheduling is enabled for agricultural producers who are entered in the Register of Agricultural Households within the meaning of the law governing agriculture and rural development:

- a natural person who is the holder of a commercial family agricultural household,
- an entrepreneur,
- a micro and small legal person and
- an agricultural cooperative.

Given the intention to support the debtors most severely hit by the current aggravated conditions of agricultural production, the debtors entitled to the rescheduling are those who as at 31 May 2022:

- were not in arrears longer than 90 days under any obligation to a bank to which the rescheduling applies,
- were not in a default status in respect of the bank and their receivables a
- were not considered a non-performing loan, and/or a non-performing receivable within the meaning of NBS regulations.

A debtor may submit a rescheduling application to a bank no later than April 30th, 2023.

The table below shows the total number and amount of loans by type of debtor and loans purpose, which meet the conditions prescribed by the NBS Decision, i.e. for which the Bank's debtors can submit a request for a rescheduling of obligations in accordance with the mentioned Decision:

(in 000 EUR)

Type of debtor	Liquidity loans		Investment loans		Other loans		TOTAL	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Retail - farmers	936	4,643	975	10,608	0	0	1911	15,250
Entrepreneurs	3	26	1	6	0	0	4	32
Legal entities - micro	4	42	4	393	2	161	10	597
Legal entities - small	10	1,508	0	0	5	4,849	15	6,358
Agricultural Cooperative	8	765	5	275	5	1,115	18	2,155
TOTAL	961	6,985	985	11,281	12	6,126	1958	24,392

Till the end of December, the Bank implemented the requests of 94 debtors for rescheduling of existing liabilities in accordance with the Decision.

The rescheduling of existing liabilities was carried out on 109 placements, with a total exposure of EUR 1,388 thousand, which is 5.7% of the initial balance of all loans to which the Decision refers.

An overview by type of person and loan purpose is given in the table below:

(in 000 EUR)

Type of debtor	Liquidity loans		Investment loans		Other loans		TOTAL	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
Retail - farmers	41	289	65	764	0	0	106	1,053
Entrepreneurs	0	0	0	0	0	0	0	0
Legal entities - micro	1	8	2	327	0	0	3	335
Legal entities - small	0	0	0	0	0	0	0	0
Agricultural Cooperative	0	0	0	0	0	0	0	0
TOTAL	42	296	67	1,092	0	0	109	1,388

Regarding the type of rescheduling, the largest number of debtors opt for a grace period of 12 months. On a total of 97 loans, which is 89% of the total number of loans for which the rescheduling of obligations was carried out, the debtors decided to postpone the settlement of their obligations under principal for a period of 12 months.

IV SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

After the end of the business year, there were no events that have a material impact on the financial statements for the period ending December 31st, 2022.

V PROJECTED FUTURE DEVELOPMENT

The bank's business policy and strategy define the basic business goals and main guidelines for the Bank's development on the Serbian market. The Bank's development is fully supported by the Bank's

shareholder, HALKBANK Turkiye, through continuous recapitalizations, all in accordance with business needs and set goals.

One of the main goals is to expand the business network of branches, while increasing the market share in Belgrade and other regions where the Bank currently does not have branches. According to the Bank's strategy, key balance positions are planned to grow faster than the expected growth of the banking sector, which will lead to an increase in the Bank's market share in the total assets, loans and deposits of the Serbian banking sector.

VI RESEARCH AND DEVELOPMENT ACTIVITIES

The bank conducts regular research on financial markets, analyzes the financial needs of clients and conducts research on the level of satisfaction of users of financial services.

The marketing sector continuously develops new products and services of the Bank and strives to, based on the information and conclusions obtained through market research and client needs, develop and offer to the market modified existing products, as well as completely new products and services.

VII INFORMATION ON REDEMPTION OF SHARES

There was no redemption of own shares during 2022.

VIII EXISTENCE OF AFFILIATES

The Bank has been successfully expanding its business network and client base. Today, the Bank's products and services are provided through a business network of 30 branches, 9 branches and 1 counter. As of December 31, 2021, the Bank has 9 branches in Belgrade, 3 branches in Čačak, branches in Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Arandjelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pancevo, Novi Pazar, Subotica, Sremska Mitrovica and Vranje as well as 9 sub-branches in Paracin, Pozega, Topola, Ivanjica, Vrnjacka Banja, Zrenjanin, Tutin, Pirot and Preševo.

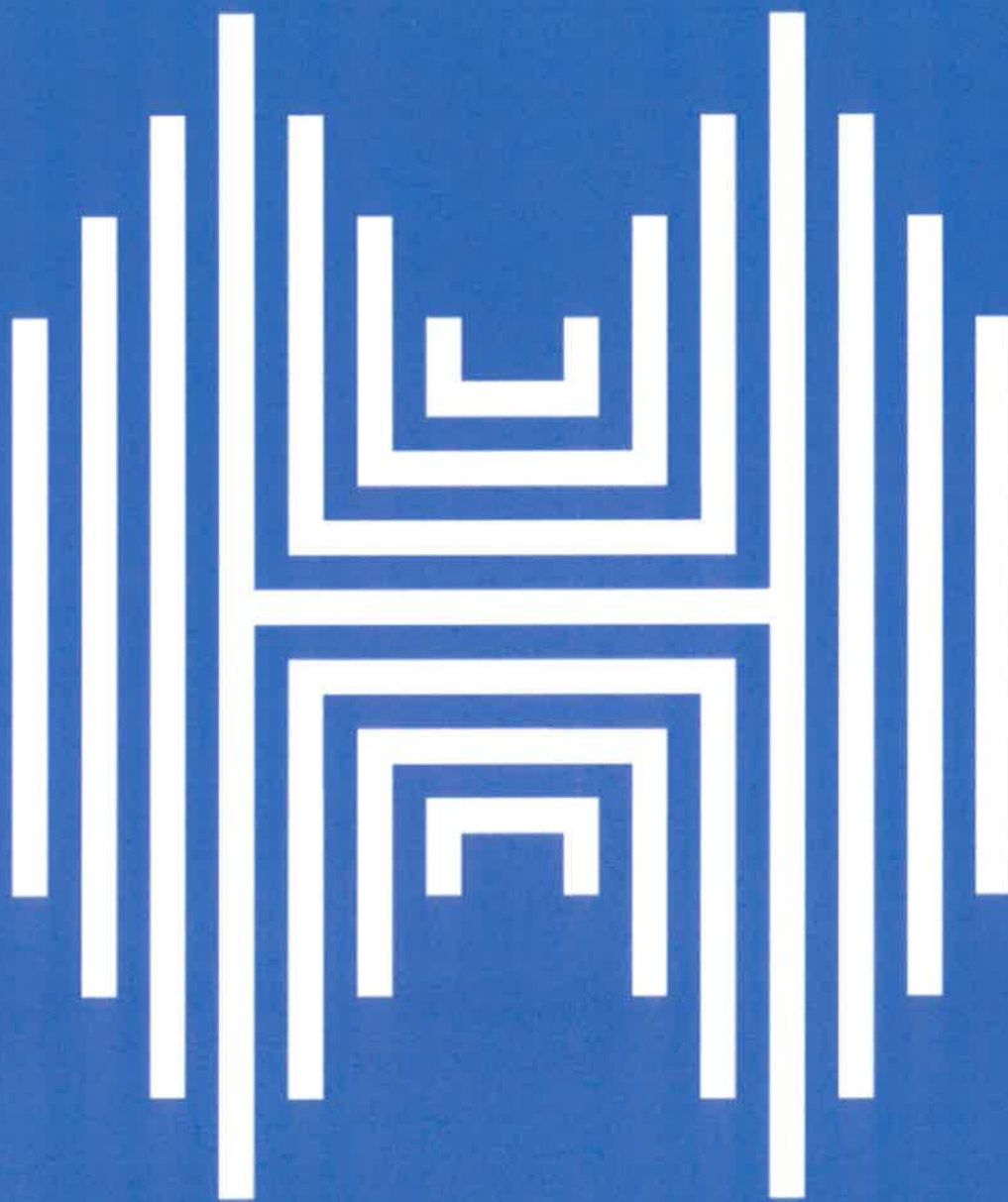


IX CORPORATE GOVERNANCE RULES

Corporate governance rules of the Bank are regulated in the following by-laws:

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





NON-FINACIAL REPORT

2022

I. PROFILE OF THE BANK

1. Vision and Mission Statement

Our vision is to be one of the most respected and chosen Leading Banks in the country.

Our mission is to be a bank that:

- by understanding the needs and expectations of clients, through the best channels offers the most appropriate solutions, a bank that provides banking services to all clients in the fastest and most efficient way through efficient alternative distribution channels or through its branches;
- is focused on the real sector together with a strong presence in the retail field, has high technology, innovative products and services, one that is aware of social responsibility and corporate values, with high quality standards, which provides productive activities and long-term profitability;
- one that puts people first and that pays attention to customer satisfaction at the highest level.

2. Corporate values

Trust - You can be sure that your money is in good hands.

Respect - We value your hard work and respect the capital you have acquired.

Honesty - Our business is transparent, and our priority is to fully protect your interests.

Quality - Our products and services are created in accordance with your requirements and expectations.

Simplicity - Our procedures are affordable and simple.

Speed - The processing of your requests is done in the shortest possible time.

Efficiency - It is in our and your interest to come up with quick solutions with simple procedures.

Development - The Bank follows world standards and business trends in order to constantly improve and adapt its products and services to market requirements.

Professionalism - We have carefully selected associates and colleagues and assembled a team of top professionals who are trained and ready to meet all your requirements.

Discipline - We diligently and conscientiously fulfill all our obligations to meet your and our professional needs.

3. Membership

Halkbank is a member of many associations, with which it cooperates and thus improves the business environment and economic development, including:

Turkish-Serbian business association
Association of Serbian Banks
CFO Association of Serbia

4. Prizes and awards

"Best in Class Wallet Enabler" by Visa card organization - HALKBANK a.d. Belgrade was recognized as the only bank in Serbia that managed to successfully complete the Visa Digital Wallet project in a record short time frame.

5. Communication strategy

The communication strategy during 2022 was mostly focused on the presentation of the Bank's new products, technological innovations and services, as well as socially responsible campaigns. In accordance with the mission and vision of the Bank takes care of the channels of communication with clients, as well as with the wider public. Various communication channels were used to inform the public, all with the aim of ensuring and maintaining interaction with public and the Bank's clients.

Advertising took place through various channels of communication, such as TV commercials on national televisions RTS, PRVA TV and N1, articles in printed and digital editions of daily and monthly newspapers, radio advertisements on radio stations with a

national frequency, local TV and radio stations, as well as printed and LED billboards throughout Serbia. In addition to communication via external channels, the Bank's own communication channels were also used, such as the website and profiles on social networks - Facebook, Instagram, LinkedIn.

The bank attended various events where communication with potential and existing clients was achieved - agricultural fairs, Republic Day of Turkey...

In the course of 2022, cooperation with the Serbian Foundation for Entrepreneurship (SEF) continued on the loan project for maintaining liquidity and working capital. The focus is on young companies and agricultural farms.

Continuing the process of improving contactless payment services via mobile phones and smart watches, the Bank introduced Google Pay, Garmin Pay and Apple Pay to most users in 2022.

Moving in the direction of digitalization development, an e-commerce service was introduced for Halkbank's clients.

Following technological trends, nowadays implemented in all spheres of society and business, the Bank will continue to work on enabling numerous innovative products and services, all with the aim of responding to the needs of clients.

II KEY EVENTS IN THE PREVIOUS YEAR

FEBRUARY

In February, a campaign of cash loans for pensioners was started, as well as the campaign "HALK PACKAGE Tailored for your" intended for employed natural persons.

Also, in February, a new version of the Bank's redesigned WEB site was released, with improved functionalities.

MARCH

During the month of March, a TV commercial promoting start-up loans and the Bank's brand awareness was filmed and broadcasted on N1, RTS 1 and TV PRVA.

APRIL

In April, the newly founded branch office in Preševo started working. In order to start a good cooperation with clients from that region, a special welcome loan offer has been made.

Halkbank has signed an Agreement on Business and Technical Cooperation with the Ministry of Agriculture, Forestry and Water Management, by which it joined the Serbia Competitive Agriculture Project (SCAP - Serbia Competitive Agriculture Project) started in cooperation with the World Bank in 2020, which will last until December 31. .2024. years.

MAY

In May, the Bank included E-commerce services in its offer, which is a service that includes the acceptance of payment cards at online points of sale for entrepreneurs, legal entities and budget users who are registered in the territory of the Republic of Serbia.

Also, in the same month, a campaign for dinar savings for individuals was launched, which promoted special conditions for savings in local currency.

JUNE

In June, a campaign of deposit products was launched - term products in euros, where clients could term their funds under special conditions.

In June, the redesigned application for mobile banking for individuals - SmartHALK, which contains improved functions, started to work.

JULY

In July, the SmartHALK Pro application for electronic and mobile banking was enabled for legal entities and entrepreneurs - the segment of Corporate, SME and Agro clients.

AUGUST

We signed an Annex to the partnership and guarantee agreement with the Serbian Foundation for Entrepreneurship for START-UP clients, with this partnership the Bank continues to actively support business beginners.

Google Pay and Garmin Pay services are enabled for Visa card users, which include contactless payment for users of devices with Android operating system, as well as for users of Garmin watches. At the same time, a cash back campaign was launched for users of these services, which allows them to get a certain amount of money back by paying with these digital wallets. Since Garmin is a worldwide synonym for sports and speed, and Garmin watches are the most widely used sports watches in the world, they were complemented by the possibility of contactless payment. As the Bank always strives to listen to the needs of clients and provide them with reliability, speed, practicality and quality, it was among the first in Serbia to enable payment using this service.

OCTOBER

The Apple pay service was introduced for Visa card users, which involves contactless payment with Apple devices, and at the same time as this campaign, a cash back campaign was launched, which allows users of this service to receive an appropriate refund when paying. This payment system is very important because the number of users of Apple devices is increasing. Following the trends, Halkbank is among the first few banks in Serbia to offer this service to its clients.

During October, the new branch in Vranje started working. In order to start a good cooperation with clients from that region, a special welcome loan offer has been made.

In October, we launched a campaign of special interest rates for term deposits in euros for individuals .

In the economy segment, a campaign for SEF loans for current and fixed assets was launched with the aim of mitigating the consequences of the COVID-19 virus pandemic. The SEF Covid-19 line is part of the program of German cooperation in Serbia.

NOVEMBER

During November, the Bank successfully unified all digital wallets for Visa users, which includes Apple Pay, Google Pay and Garmin Pay services, Visa card users have the option of contactless payment at all points of sale that support contactless payment, as well as online points of sale.

The Garmin Pay service has been introduced for MasterCard users, which means contactless payment with Garmin watches.

In November, a new branch was opened in Sremska Mitrovica. In order to start a good cooperation with clients from that region, a special welcome loan offer has been made.

In the retail segment, a new product was introduced and a campaign was started for cash loans with a fixed interest rate, which include a very attractive interest rate, as well as an unchanged amount of the monthly installment during the entire repayment period.

DECEMBER

Halkbank has introduced Google Pay and Garmin Pay services for all MasterCard card users, which include contactless payment using Android devices and Garmin watches.

III KEY STAKEHOLDERS AND MATERIAL TOPICS

KEY STAKEHOLDERS		
STAKEHOLDER GROUP	COMMUNICATION AND ENGAGEMENT CHANNELS	STAKEHOLDER AREA OF INTEREST
CUSTOMERS	Branches	Timely, accessible and reliable information about products and services
Natural persons	Bank website	Continuous improvement of support
Small and Medium-Sized Enterprises	Call centre	Responsible advertising
Big Corporate Clients	Print and digital media	Flexible products and services
	Meetings	
SHAREHOLDERS AND INVESTORS	General meetings	Transparent management
Majority	Annual reports	Business results
	Bank website	
EMPLOYEE	Official Executive Board decisions	Opportunities for development and improvement
Bank Executive Board and Management	Meetings	internal communication improvement
Business Network employee	Trainings	Employee satisfaction
Other employees	Intranet	
Union		

STATE-OWNED INSTITUTIONS	Annual reports	Transparent management
Regulatory Bodies	Meetings and consultations	Business results
Ministries and Government Institutions	Conferences	Regulatory compliance
LOCAL COMMUNITY	Annual reports	Investment in local community development
Local Self-Government	Meetings and consultations	Partneship projects
	Donations and sponsorship procedures	
BUSINESS COMMUNITY	Annual reports	Partneship projects
Business Associations	Meetings and consultations	Supplier selection transparency
Suppliers	Involvement in business association work groups and boards	
Business Partners		
MEDIA	Press conferences	Timely and open comunication
National	Press releases	Business results
Local	Print and digital media	Investing in Local community
CIVIL SECTOR	Meetings and consultations	Partneship projects
Non-governmental organisations	Donations and sponsorship procedures	Investing in community
Non-profit organisations	Annual reports	Promotion od Corporate Social Responsibility
		Volunteering promotion

Material topics

Material topics are defined in accordance with the GRI guidelines and represent issues of importance to our stakeholders in the context of the Bank's impact on the environment in which it operates.

- Safety and health at work, training and education, equal opportunities for promotion and rewards
- Compliance with business standards, laws and regulations
- Responsible resource management, respect for the principles of "green procurement", recycling, energy management
- Responsible financing
- Marketing and communication with clients
- Contribution to the local community through continuous development of products and services available to all clients, donations and support for youth employment through the program "moja prva plata".

IV CORPORATE MANAGEMENT

Halkbank, like all its employees, adheres to the highest standards of corporate governance, which is the foundation of responsible and sustainable business. The Bank is fully committed to complying with all legal provisions and regulatory frameworks relevant to our operations, which together with our management and control system ensures that the interests of all stakeholders are fully protected.

The Supervisory Board strives to continuously improve management processes in order to ensure business coherence, transparency and accountability in decision-making, as well as to ensure a healthy corporate culture.

The Supervisory Board of the Bank has adopted a Corporate Governance Code whose main goal is to present in a transparent and efficient manner the corporate governance system established in the Bank and the introduction of good business practices in the field of corporate governance, which should balance the influence of its holders, all in order to ensure the long-term business development of the Bank.

In its operations, the Bank, through internal acts and the work process, ensures the avoidance of conflicts of interest between members of management bodies and persons related to them, taking into account the law and good corporate governance practice. The Code of Business Conduct and Ethical Principles consolidates general and specific rules and guidelines for ethical business conduct and conduct, while a number of other individual policies strengthen the system of governance and internal controls.

Management structure, mandate and composition of management bodies

The bodies of the Bank are: the Assembly, the Supervisory Board and the Executive Board.

The Assembly consists of the Bank's shareholders, i.e. Türkiye Halk Bankası A.Ş., Barbaros Mahallesi, Sebboy Sk. No.4,3 4746 Atasehir, Istanbul Turkey, identification number 862070 (hereinafter: shareholder) who, as the only one shareholder, performs the functions of the Bank's Assembly according to applicable regulations, Foundation Decision and Statute. Assembly is the highest body since the most important issues related to the Bank's operations are decided at its sessions. Assembly adopts the Business policy and strategy of the Bank, defining operation targets of the Bank for the period of minimum three years, adopts the financial reports of the Bank and adopts the decision on use and distribution of profits i.e. covering of losses, decides on capital increasing, on investments of capital in other bank or other legal entity, decides the amount on investment in fixed assets, adopts the Statute and amendments and supplements to the Foundation Decision and the Statute of the Bank and decides on other issues in accordance with the law and Statute. One of the important issues within the scope of the Bank's Assembly is the appointment and dismissal of the President and members of the Supervisory Board in accordance with regulations.

The Shareholders' Assembly may have regular or extraordinary meetings. A regular meeting is held minimum on a yearly basis within the deadline in accordance with the law.

The Supervisory Board shall inform National Bank of Serbia of the date and agenda of the Bank's Assembly meeting within the timeframe stipulated for notifying shareholders.

Issues related to the Assembly – composition, competence, regular and extraordinary session, conference session, quorum, repeated session, President of the Assembly, shareholders' day and invitation to the session are regulated by the Statute of the Bank. Unless otherwise stipulated by the Law on Bank, provisions of the law on companies relating to the assembly of a joint-stock company shall apply to the procedure of convening, notification and proceedings in meetings of the Bank's assembly.

The manner of work and other issues of importance for the work of the Assembly shall be regulated by the Rules of Procedure of the Assembly.

The governing bodies of the Bank are the Supervisory Board and the Executive Board.

Supervisory Board

The members of the Supervisory Board have a good business reputation, rich experience in the field of finance and appropriate qualifications in accordance with the regulations of the National Bank of Serbia.

The term of office of the members of the Supervisory Board is four years with the possibility of re-election. At the end of 2022, the Supervisory Board of the Bank consisted of 7 (seven) members, including the President, of which two were independent members with active knowledge of the Serbian language and residing in the territory of the Republic of Serbia.

The Supervisory Board of the Bank meets at least once every three months, and more often if necessary. One of the most important duties of the Supervisory Board is to provide strategic direction to the Bank's management, harmonization of operations with laws, regulations and acts of the National Bank of Serbia, as well as internal acts of the Bank and the Group's guidelines, in achieving

long-term goals.

During 2022, 20 sessions of the Supervisory Board was scheduled. Within the total number of scheduled sessions, 19 were held, 16 regular and 3 extraordinary (written) sessions. One session (scheduled for December 12, 2022) was not held, it was postponed. The subject of consideration and decision-making at these sessions, in the context of strategic and business decisions, were: regular monitoring of financial and business performance of the Bank, risk management, internal system control, business compliance and internal audit, reviewing and/or adopting a strategy and policy for risk management, giving prior approval for the Bank's exposure to any individual or group of related parties that exceeds 10% of the Bank's capital, i.e. for increasing this exposure to more than 20% of the Bank's capital, deciding on placements, reviewing decisions on approved exposures, adoption of the Bank's general business conditions, i.e. its amendments and supplements, as well as other important issues within the competence of the Supervisory Board.

Issues related to Supervisory Board – composition, appointment and dismissal, mandate, meetings, quorum, competence and other issues are regulated by the Law on Banks, Statute of the Bank and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of importance for the work of the Supervisory Board are more detailed regulated by the Rules of Procedure of the Supervisory Board.

Executive Board

The members of the Executive Board of the Bank are dismissed and appointed by the Supervisory Board for a period of 4 years with the possibility of re-election. In accordance with the adopted amendments to the Statute, starting from February 15, 2023, the mandate of the President and the Members of the Executive Board who will be appointed or reappointed will be 2 years. The Executive Board consists of 3 members, including the President.

The Executive Board of the Bank organizes and supervises business activities of the Bank on a daily basis and is responsible for implementation and efficient functioning of the system of internal controls in the Bank. The Executive Board shall: carry out decisions of the Bank's Shareholders' Assembly and the Supervisory Board, proposes to the Supervisory Board the Business Policy and Strategy of the Bank, as well as the Risk Management Strategy and Policy and Capital Management Strategy of the Bank, implement the Business Policy and Strategy of the Bank by enacting relevant business decisions, analyse the risk management system and at least on a quarterly basis report to the Supervisory Board of the level of risk exposure and risk management, inform the Supervisory Board of all activities which are not in compliance with regulations and other enactments of the Bank and perform all other duties within its competence.

One of the basic competencies of the Executive Board is to supervise the day-to-day business activities of the Bank and to ensure that the overall organization of the Bank adequately supports the implementation of the business strategy and the achievement of the Bank's planned business objectives.

During 2022, the Executive Board of the Bank held a total of 50 sessions – one was written.

Issues related to the Executive Board – composition and quorum, appointment and dismissal, mandate, competence and other issues are regulated by the Law on Banks, Statute of the Bank and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of importance for the work of the Supervisory Board are more detailed regulated by the Rules of Procedure of the Supervisory Board.

In order to improve operations and more adequate supervision, the Bank has other committees in accordance with applicable regulations: the Business Monitoring Committee (Audit Committee), the Credit Committee and the Assets and Liabilities Management Committee. These committees ensure that the Bank

operates in accordance with applicable regulations and are committed to reviewing issues in the field of risk management and internal control systems, business compliance and prevention of money laundering and terrorist financing, adequacy and efficiency of the Bank's procedures and security systems, all types of placements, as well as other issues important for the work of the Bank, each board within its scope.

The Audit Committee shall assist the Bank's Supervisory Board in supervising the activities of the Bank's Executive Board and Bank's employees. The Audit Committee consists of minimum three members, at least two of which are members of the Bank's Supervisory Board who have the appropriate experience in the field of finance. At least one member must be person independent of the Bank.

The Credit Committee of the Bank performs the following activities: makes decisions on approving all types of dinar and foreign currency loans, guarantees, bill guarantees, letters of credit and other warranties, as well as other placement of the Bank, and performs other activities in accordance with the Bank's acts, law and regulations and performs other activities by order of the Supervisory Board.

The Assets and Liabilities Management Committee monitors the Bank's exposure to risks resulting from the structure of its balance sheet obligations and receivables and off-balance sheet items, on the basis of the received information proposes measures at its meetings for managing interest rate risk and liquidity risk in the manner that it makes concrete conclusions and/or decisions, or clear guidelines to organisational units of the Bank and its employees that should ensure appropriate management of the above mentioned risks and perform other activities established by the Bank's acts.

The Assets and Liabilities Management Committee members are appointed by the Supervisory Board from the Executive Board members and the Bank employees.

Issues related to the Audit Committee, Credit Committee and Assets and Liabilities

Management Committee – composition and quorum, appointment and dismissal, mandate, competence and other issues are regulated by the Law on Banks, Statute of the Banke and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of importance for the work of the Audit Committee, Credit Committee and Assets and Liabilities Management Committee are more detailed regulated by the Rules of Procedure on the work of each of the mentioned committees.

SUPERVISORY BOARD	
1.	Osman ARSLAN, President
2.	Hasan TUNCAY , Member
3.	Altan TAŞKIRAN, Member
4.	Hamdi COŞGUN, Member
5.	Güvenç USTA, Member
6.	Dr Jasmina BOGIĆEVIĆ, Independent Member
7.	Vesna VUKOVIĆ, Indenepndent Member

EXECUTIVE BOARD	
1.	Aziz Arslan, President
2.	Ertürk Sümer, Member
3.	Dušica Erić, Member

AUDIT COMMITTEE	
1.	Hasan TUNCAY, President
2.	Hamdi COŞGUN, Member
3.	Dr Jasmina BOGIĆEVIĆ, Member

CREDIT COMMITTEE	
Members of the Credit Committee are elected in accordance with the Decision on establishing Credit Committee and appointment members of the Credit Committee	

ASSETS AND LIABILITY MANAGEMENT COMMITTEE	
Members of the Assets and Liability Management Committee are appointment in accordance with the Decision on establishing and appointment President and Members of the Assets and Liability Management Committee	
Members of the Assets na Liability Management Committee are the following:	
1.	The President of the Executive Board, president
2.	Members of the Executive Board, members
3.	The Head of the Credit Division, member
4.	The Head of the Treasury Division, member
5.	The Head of the Financial Management and Budgeting Division, member
6.	The Head of the Corporate and SME Marketing Division , member
7.	The Head of the Retail Marketing Division, member

Code of Business Conduct

The Code of Business Conduct and Ethical Principles is a set of principles and working rules that employees of the Bank should adhere to its work and serve as a reminder of certain standards they need to meet. The purpose of this Code is to establish general ethical principles and norms of professional banking behavior in order to prevent all disputes and conflicts that may arise between employees, clients and the

Bank, but also contribute to the success and reputation of the Bank.

The Code is based on the vision, mission and corporate values of the bank: trust, discipline, efficiency, honesty, quality and professionalism. The Code of Business Conduct directs us to act responsibly, respectfully and sustainably in all aspects of business, protect and further strengthen our good reputation and build trust among our stakeholders.

Activities by which the Bank supports the goals of sustainable development of the United Nation

<p>1 NO POVERTY</p> 	<ul style="list-style-type: none"> - Providing financial services to vulnerable groups through the development of special products, market presence and adjustment of branches - Contribution to the local community 	<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<ul style="list-style-type: none"> - Contribution to the local community - Accessibility of branches and sub-branches - Product development and improvement and digital services
<p>2 ZERO HUNGER</p> 	<ul style="list-style-type: none"> - Contribution to the local community 	<p>10 REDUCED INEQUALITIES</p> 	<ul style="list-style-type: none"> - A wide range of bank products available to everyone
<p>3 GOOD HEALTH AND WELL-BEING</p> 	<ul style="list-style-type: none"> - Implementation of safety measures at work - Voluntary health insurance program - Free systematic examinations for employees - Working conditions adapted to epidemiological measures 	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 	<ul style="list-style-type: none"> - Contribution to the local community - Donations
<p>4 QUALITY EDUCATION</p> 	<ul style="list-style-type: none"> - Training program for employees - Possibility of youth employment through the program "Moja prva plata" 	<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<ul style="list-style-type: none"> - Providing clear and transparent product information. - Respect for the principle of "green procurement"
<p>5 GENDER EQUALITY</p> 	<ul style="list-style-type: none"> - The employment policy and procedure gives employment opportunities to anyone who meets the criteria 	<p>13 CLIMATE ACTION</p> 	<ul style="list-style-type: none"> - Recycling - Waste management - Energy management
<p>6 CLEAN WATER AND SANITATION</p> 	<ul style="list-style-type: none"> - Responsible treatment of the environment 	<p>14 LIFE BELOW WATER</p> 	<ul style="list-style-type: none"> - Responsible treatment of the environment
<p>7 AFFORDABLE AND CLEAN ENERGY</p> 	<ul style="list-style-type: none"> - Loans intended for households for energy efficiency - Waste, energy and recycling management 	<p>15 LIFE ON LAND</p> 	<ul style="list-style-type: none"> - Responsible treatment of the environment
<p>8 DECENT WORK AND ECONOMIC GROWTH</p> 	<ul style="list-style-type: none"> - Contribution to the social product - Contribution to the local community - A wide range of bank products available to everyone 	<p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p> 	<ul style="list-style-type: none"> - Compliance of business with relevant legal and other regulations, business standards, procedures on prevention of money laundering and terrorist financing
		<p>17 PARTNERSHIPS FOR THE GOALS</p> 	<ul style="list-style-type: none"> - Cooperation with EIB, SEF, GGF, EFSE, ITL, DHB, FRK

V ALTERNATIVE DISTRIBUTION CHANNELS

At the beginning of the year, the replacement of the remaining obsolete ATMs located outside the Bank's business units was completed. In a total of nineteen locations, the old ATMs were replaced with completely new devices manufactured by Diebold Nixdorf series CINEO and DN. The novelty compared to the previous period is that at four locations, which are located outside the Bank's business units, a multi-functional ATM has been installed that has the ability to withdraw and deposit money.

Implementation of the VISA VTS system that enables the use of wallet solutions such as Apple Pay and Garmin Pay flowed at an orderly pace and in accordance with the project frameworks that were defined. The development and implementation of the solution included the delivery of the solution for the processor host, which will be used for official certification (testing) at the VISA card organization. At the same time, the steps related to the implementation of the Google Pay solution were started, which was planned to be put into production, within the same project at VISA, slightly after the production of Apple Pay and Garmin Pay services.

In order to achieve the greatest possible efficiency in communication with clients and to establish the best possible user experience, the Bank implemented the new Viber Business Messages communication channel. It is a solution that allows using the Viber platform to send messages to clients instead of SMS. In addition to being more cost-effective for the Bank, Viber messages offer much greater potential because they can contain multimedia content, information on receipt, view of message attachments, etc.

During the second quarter of 2022, the implementation of the VISA VTS system took place in accordance with the previously defined plan. The team at the bank, which is in charge of implementation, successfully completed the official certification of the Apple Pay solution at the end of June. Also, significant progress has been made in the

development of the Google Pay digital wallet. In accordance with the original plan, the Bank was ready to 28.08.2022. year, when Google officially announces the availability of the Google Pay digital wallet on the territory of the Republic of Serbia, customers will be able to use Google Pay for Halkbank VISA cards. In addition to Apple Pay and Google Pay, the Bank had planned to enable VISA card users to digitize on Garmin and Fitbit devices that are equipped with NFC technology.

After the approval of the new product by the National Bank of Serbia, at the beginning of September the Bank has included in its offer a modern solution for accepting payments by payment cards at merchants' online stores. As online payments are becoming more and more popular and preferred by consumers, the Bank has offered all interested merchants the possibility of accepting all types of payment cards at online stores, including advanced functionalities such as the option of saving cards for future payments (card on file), the option of automatic recurring payments (recurring payment), payment option via link (pay by link) and 3D Secure technology of the last generation.

At the end of August, after successful implementation and certification, the Bank has offered clients a new modern digital service related to the possibility of using the Google Wallet digital wallet. With Google Wallet, the Bank's clients, who have any Visa card issued by the Bank, are enabled to use the Google Pay service for digitizing their payment card. Thus Halkbank is one of only five banks that made the service available. At the same time, all clients who have any Visa card issued by the Bank and a Garmin device that supports payment, are enabled to digitize payment cards and make payments through the device. In accordance with the plans, preparatory actions for the launch of the Apple Pay service for Visa card users of the Bank continue according to plan, and at the beginning of October, Apple Pay will become available to clients. Development to support Mastercard cards in digital wallets is ongoing.

At the beginning of October, the Bank successfully completed the third phase of the Digital Wallet project, which is related to Visa Apple Pay . In order to activate and promote the new service as best as possible, the Bank organized a trickle with cash-back rewards. In the period from 04.10.2022. – 04.11.2022. Apple Pay users are rewarded with cashback of 20% of total spending, i.e. a maximum of RSD 5,000.

In the middle of November, the SmartHALK platform for natural persons was upgraded. The new version of the SmartHALK platform brought significant improvements such as new functionalities, refreshed design and fixes for known bugs.

At the beginning of December, the Bank provided its users with the Mastercard

Garmin service Pay and Google Pay . Also, in order to promote new services, the Bank organized a cash-back campaign. In the period from 07.12.2022. – 07.01.2023. users of Garmin Pay and Google Pay are rewarded with cash back of 20% of total spending, i.e. a maximum of RSD 5,000.

SmartHALK The Pro e-Banking and m-Banking solution was implemented and presented to the sales network in mid-November. SmartHALK Pro is an internal e - banking and m- banking solution intended for legal entities and entrepreneurs. By applying for this product, the client can simultaneously use electronic banking (using Internet browsers) and mobile banking (using the mbank application).

VI COMPLIANCE AND AML DEPARTMENT

The Compliance and AML Department was established in accordance with the Law on Banks. The Head of the Department is appointed by the Supervisory Board of the Bank and reports directly to him.

The part of the Department that prevents money laundering and terrorism financing is independent of other business activities of the Bank. The member of the Executive Board who is responsible for the implementation of the Law on Prevention of Money Laundering and Terrorism Financing (hereinafter: the Law) is appointed by the Supervisory Board of the Bank. The Authorized Person and his Deputy shall be appointed by the Executive Board of the Bank in accordance with the Law. Authorized persons of the Bank report directly to the Executive Board and are independent in their work.

Within the Department, there is also a function related to the protection of personal data and the application of the Personal Data Protection Law.

The main goal of the Department is to support the establishment of an appropriate system of internal controls at the Bank level, which allows it to operate in accordance with the set of ethical values contained in the Code of Conduct and ethical principles and in accordance with applicable laws, regulations and internal acts and international best practice.

In order to preserve independence in the work of the Department, the Head and Authorized persons periodically report to the Bank's Audit Committee, the Supervisory Board and the Executive Board on the activities of the Department and issues related to compliance risk and money laundering and terrorism financing risk.

The scope of work of the Department is as follows:

- Controls the compliance of operations with relevant legal and other regulations and takes care of the application of

binding provisions on the prevention of money laundering and terrorism financing;

- Monitors regulations, informs the competent organizational units of the Bank on innovations and changes in regulations and controls their implementation in procedures, instructions and other acts of the Bank;
- Controls the compliance of procedures and instructions with laws and other regulations, business standards, procedures on prevention of money laundering and terrorism financing, as well as with other acts regulating the Bank's operations;
- Prepares, updates and harmonizes internal acts of the Department;
- Prepares the Operational Annual Plan for Monitoring the Compliance of the Bank's Operations;
- Prepares regular reports on performed controls of compliance with operations;
- Prepares annual reports on performed controls of compliance with identified and assessed main compliance risks and risk management plan;
- Reports to the Executive Board and the Audit Committee on the determined results of compliance control in accordance with the Compliance Monitoring Program and the Procedure, and reports on deficiencies related to the identified compliance with legal regulations and internal acts regularly to the Executive Board and the Audit Committee at least once a year Supervisory Board of the Bank;
- Prepares annual reports on the performed internal control and measures taken in connection with the implementation of the Law on Prevention of Money Laundering and Terrorism Financing;
- Prepares an annual assessment of the bank's exposure to the risk of money

laundering and terrorism financing in accordance with the Decision on Guidelines for the Application of the Law on Prevention of Money Laundering and Terrorist Financing for Obligors overseen by the National Bank of Serbia;

- Prepares an annual risk analysis of money laundering and terrorism financing;
- Preparation of six-monthly reports for the National Bank of Serbia on the activities undertaken by the Bank in the field of prevention of money laundering and terrorism financing;
- Ensures proper and timely submission of data to the Anti-Money Laundering Administration in accordance with legal regulations;
- Obtains, controls, analyzes and forms reports to Anti-Money Laundering Administration on cash transactions in the amount of EUR 15,000 and more in dinar equivalent at the middle exchange rate of the NBS in accordance with regulatory regulations;
- Analyzes clients and transactions on their accounts, makes official notes and reports suspicious clients and transactions to the Anti-Money Laundering Administration;
- Forms and submits data upon requests of the Anti-Money Laundering Administration, the Financial Investigation Unit and the Anti-Corruption Agency;
- Acts on the orders of the competent authority to suspend transactions or monitor the financial operations of the party;
- Develops the annual Plan and training program for employees in order to implement regulations in the field of prevention of money laundering and terrorism financing and implements its implementation;
- Manages risks arising from omissions or non-compliance with laws, business standards, anti-money laundering and

anti-terrorism financing procedures, as well as non-compliance with other acts, which ensure the Bank's operations;

- Actively cooperates with all organizational units of the Bank as well as the National Bank of Serbia, the Anti-Money Laundering Administration and the Association of Serbian Banks in obtaining views and opinions for the application of certain regulations and resolving disputes in their application;
- Monitors the implementation of the provisions of the Law governing the protection of personal data, other laws and internal regulations relating to the protection of personal data, including issues of division of responsibilities, awareness raising and training of employees in processing operations, as well as control;
- Takes all other measures for the protection of personal data in accordance with the Law, especially taking into account the legality, expediency and proportionality of the processing of personal data;
- Cooperates with the Commissioner for Information of Public Importance and Personal Data Protection, is a contact point for cooperation with the Commissioner and consults with him on issues related to processing, including informing and obtaining opinions on the obligation to assess the impact on protection of personal data;
- Performs other tasks ordered by the Bank's management.

In addition to the above activities, in the field of compliance risk management, the Bank pays special attention to the fight against corruption, according to which it applies the principle of zero tolerance.

The Bank bases its activities on the prevention of behaviors that may lead to corruption.

The Bank has adopted the Anti-Corruption Policy and the Code of Business Conduct and ethical principles according to which any type of corrupt behavior is strictly prohibited.

The Bank's internal acts regulating the area of anti-corruption are available to all employees through the Bank's internal portal, and it is the obligation of all employees to be regularly informed about newly adopted documents.

Raising employee awareness and targeted training are an extremely important part of the corruption risk management system. As one of the ways of risk mitigation in this area, the Compliance and Anti Money Laundering

Department conducts regular training of employees.

Training in the field of business compliance "Corruption Prevention Policy" was organized by the Department in December 2022, in the form of a presentation that was delivered to all employees of the Bank via e-mail. The training covered general topics related to corruption and business ethics. The result of the training is to familiarise employees with zero tolerance, risks, ways of recognizing, ways of reporting and escalating cases related to this risk, relevant acts that need to be known and contact persons for any question in this area.

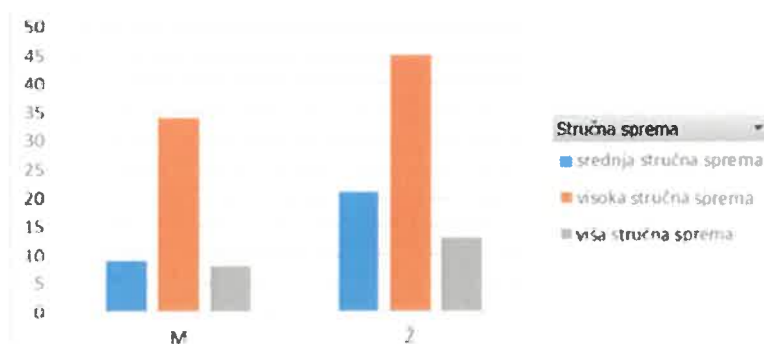
VII HUMAN RESOURCES

During 2022, the Bank continued to maintain a high level of care for employees, facing challenges in the labor market of the Republic of Serbia. At the end of the 2022, the Bank had 657 employees compared to end of 2021 when number of employees was 589 which represents a growth of 11,5%. Table below provides overview of new employees in 2022 and total number of employees in Head office and branch network.

Number of employees	new employees	31.12.2022
Headquarter	35	306
Branches	33	351
Total	540	657

During the selection and recruitment process, one of the criteria on which the Bank focuses is the higher education of employees. Despite the challenge that there is a decreasing number of candidates interested in working in banking sector, the Bank managed to maintain the mentioned trend.

The following graph show the qualification structure of new employees:



The age and qualification structure of employees at the end of 2022 is shown in the table below:

Godine starosti (Age) Stručna sprema (Qualification)	Godine starosti (Age)					Ukupno (Total)
	Do 30 godina (Up to 30 years)	31-40 godina (31-40 years)	41-50 godina (41-50 years)	51-60 godina (51-60 years)	Preko 60 godina (Above 60 years)	
I-NK (Elementary School)				2		2 (0.30%)
II-PPK						0 (0.00%)
III-KV, SSS						0 (0.00%)
IV-SSS (High School)	27	27	41	25	8	128 (19.48%)
V-VKV						0 (0.00%)
VI/1-VŠS (College degree)	8	26	39	13	3	89 (13.55%)
VI/1-VS (University degree)	54	173	173	26	9	435 (66.21%)
VII/2 - Magistar, spec (Master)		1	1	1		3 (0.46%)
VIII – Doktor nauka (PhD)						0 (0.00%)
Ukupno (Total)	89 (13.55%)	227 (34.55%)	254 (38.66%)	67 (10.20%)	20 (3.04%)	657 (100.00%)

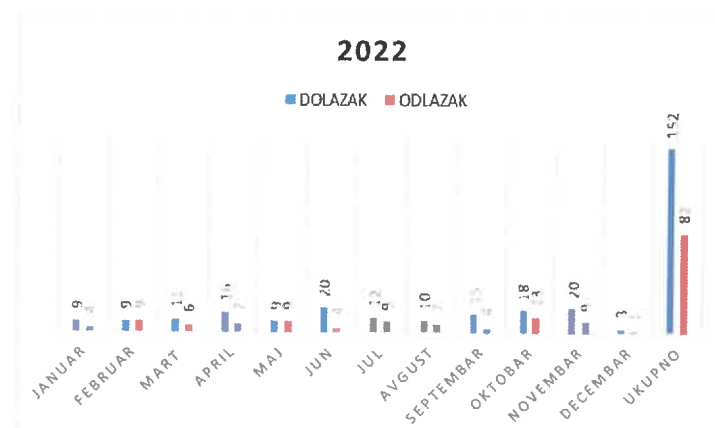
In the qualification structure of employees at the end of the 2022, the share of employees with high education was 66,7%, while the participation of younger than 40 years was 48,1% .

Expenses for salaries in 2022 were EUR 10.909 thousand, i.e EUR 800 thousand more than in 2021, that is adequate for the growth in the number of employees.

Working at the Bank

One of the challenges we faced in 2022 is high turnover of employees caused by changes in the labor market. New ways of working, hibrid, working from home, as well as the entry of new companies from the IT industry into our market, led to the fact that in 2022 the process of retaining employees in the Bank was quite dynamic and demanding.

In accordance with the business plans in 2022, the number of employees was increased for 11,5% (657 employees in 2022 compared to 589 employees in 2021). The business plan for 2023 foresees 730 employees, i.e. a growth of 11%, i.e. an approximate growth trend.



The average age of Halkbank employees in 2022 was 41,15 years of which 89 employees are younger than 30, 481 are between 30 and 50, while 87 are older than 50. Compared to the previous year, the

differences are not significant: in the group up to 30 years of age in 2021 there were 81 employees, between 30 and 50 years were 430, and over 50 there were 76..

In accordance with modern trends in the provision of financial services, in the total number of employees, women predominate in relation to the number of men employed in the Bank – 67,28% of women and 32,72% of men.

The tables and graphs below represent the structure of employees at the end of 2022 by various categories:

Age structure		
Year	2021	2022
Up to 30 years old	83 (14.09%)	89 (13,55%)
31 – 50 years old	430 (73,01%)	481 (73,21%)
Above 50 years old	76 (12,90%)	87 (13,24%)

Age / type of position structure			
Type of position	Up to 30 years	31-50 years	Above 50 years
Total	89 (13,55%)	481 (73,21%)	87 (13,24%)
Managerial position	1 (0,92%)	83 (76,85%)	25 (23,14%)
Operational position	67 (12,20%)	411 (74,86%)	71 (12,93%)

Gender/type of position structure				
Type of position	Male 2021	Female 2021	Male 2022	Female 2022
Total	184 (31.24%)	405 (68.76%)	215 (32.72%)	442 (67.28%)
Managerial position	49 (46.67%)	56 (53.33%)	53 (49.07%)	55 (50.93%)
Operational position	135 (27.89%)	349 (72.11%)	162 (29.50%)	387 (70.50%)

Total number and turnover rate of employees

›Retirement: 2022- 2 compared to 2021 - 1

›Employed: 2022 – 152 compared to 2021 - 135; 2020 - 78

›Termination of employment: 2022 – 82, 2021 - 86; 2020 - 63



Employment selection process

In accordance with the regulation on achieving gender equality, during 2022 the Bank tried to maintain an equal position for both sexes. The percentage of employed women in 2022 is 67% compared to 33% of employed men.

The branch network in 2022 was expanded for 2 branches and 1 sub-branch, which represents a total of 39 branches/sub-branches/counters in several cities throughout Serbia. New branches were opened in Vranje and Sremska Mitrovica with 11 new employees. A new sub-branch was opened in Preševo for 4 new employees.

For the second time, Halkbank took part in the state program "My first salary". In 2021, 5 young candidates gained their work experience in the Bank through the mentioned program, out of which 4 candidates continued to work in the Bank as regular employees. As part of the program that started at the end of 2022, 11 candidates decided to gain their experience at the Bank. The program will last until September 2023.

The bank has a plan to retain the best candidates, i.e. offer them the possibility of starting an employment after the end of the program.

Employee training and development

Internal training

During 2022, Halkbank continued with continuous training of its employees. Internal trainings are organized throughout the year and cover the areas of Anti Money Laundering Prevention, Code of Business Conduct, Compliance of the Bank's Operations, Cashier Operations.

External, in-house trainings, specialist seminars and certifications

The Bank also enables its employees to take professional certificates, which are important both for the employee and for the Bank itself. In 2021, the Bank enabled employees to be certified by the ACCA (Association of Chartered Certified Accountants), CIA (Certified Internal Auditor) and certificates required for colleagues in the IT sector.

Employee rights

The right to associate is guaranteed to employees of the Bank, without discrimination on the basis of membership in associations or trade unions.

The rights of all employees are regulated by the Labor Rulebook, which is fully in accordance with the Labor Law.

During 2022, there were no deaths related to accidents at work, nor occupational diseases that would result in a longer absence from work,

Compensation (cash benefits) and other benefits

As part of the employee benefits, cooperation with Wiener Stadtische osiguranje continued in 2022 related to obligatory insurance. . Private health insurance is agreed with Milenijum Insurance company and all employees are insured with private health insurance.

All employees of the Bank are insured in cases of surgery and / or serious illness, in case of injury and / or current or permanent incapacity for work and in case of accidents in accordance with the insurance policy paid by the Bank.

Complaints mechanisms

Employees of the Bank have the opportunity to send their complaints to the competent colleagues in accordance with internal policies and procedures and related to - **the Law on Prevention of Harassment at Work, the Law on Protection of Whistleblowers, the Rulebook on the Procedure of Internal Alarm.**

Employees are free to contact their manager or the Human Resources and Organization Department and submit any type of application or complaint, which is resolved in accordance with the Bank's capabilities.

During 2022, no complaints regarding human rights violations were filed through the above procedures there were no complaints from our employees, ie identified cases related to discrimination based on race, gender, religion and etc.

Achieved in 2022:

- Improvement of benefits for employees, inclusion of all employees in additional health insurance
- Reducing the percentage of fluctuation in critical limiting units (Information Technology Division)

Goals for 2023:

- Development of a benefit system for employees
- Participation in fairs, programs with aim to attract candidates without experience
- Work on improving the mental and physical health of employees by introducing various types of workshops/support programs



VIII RESPONSIBILITY TOWARDS CLIENTS

Customer support

The bank is committed to social responsibility, primarily through supporting the development of entrepreneurship and strengthening the entrepreneurial spirit in Serbia. Halkbank was among first banks on the market to initiate cooperation with the Serbian Entrepreneurship Foundation (SEF), established by the German Development Bank KfW and the Serbian Chamber of Commerce. It is a non-profit, non-governmental organization founded to achieve socially useful goals, based in Belgrade. The main goals of the SEF Foundation are to facilitate access to financial products for start-up clients, SME clients, entrepreneurs and registered agricultural holdings, through cooperation with financial institutions.

The bank cooperates with SEF through two guarantee lines, Covid-19 and Start-up. The Covid-19 guarantee line is designed to support small and medium-sized companies, entrepreneurs and AGRO clients whose businesses are directly or indirectly affected by the Covid-19 pandemic. Support to clients is reflected in easier access to financial resources, in order to ensure business continuity in crisis conditions and thus preserve employment. The start-up guarantee line provides support to new SME clients, entrepreneurs and AGRO clients who have very difficult access to financial resources on the market. In this way Bank, in cooperation with the SEF foundation, provides true support to the development of entrepreneurship, self-employment and strengthening of private initiative in business.

Customer care

Halkbank, guided by the slogan People first and foremost, always puts clients first and in the focus of all its activities. As clients satisfaction is the foundation of our business success, the Bank within the Corporate Communications and Quality Management Department is continuously working to improve the quality of service we provide to clients.

The quality management system is incorporated in the procedures Quality Management and Complaints of the Clients.

Respecting the quality management procedure, we strive for client satisfaction, trust and loyalty. One of our main goals is performance consistency – we want every branch or employee who serves the client to provide the same service. With regular branch visits, we want to ensure the speed of service, process efficiency as well as the kindness of employees and a friendly attitude towards customers. In order to provide the best possible services to clients, we try to make our branches accessible and in accordance with the most modern market standards. In the previous year, we opened three new branches and relocated one existing one. Through continuous research and monitoring, we strive to achieve better, faster and simpler processes without unnecessary steps.

Listening clients needs through suggestions, praise, questions and complaints, the Bank is always available to clients with maximum commitment. Quick and efficient resolving of complaints as well as prevention of complaints are aimed at raising the quality of services provided by the Bank to clients. The resolving of complaints process includes a number of activities, including cooperation with managers in the relevant organizational units of the Bank, depending on the nature of the complaint, in order to assess the complaint, analyze it, gather information and evidence and find solution. The Bank's response is always clear, complete and understandable to the client. The Corporate Communications and Quality Management Department also cooperates with the National Bank of Serbia in order to provide clients with transparent and timely information. In the total number of complaints Bank received during the previous year, there were no complaints regarding non-compliance with regulations in the field of marketing communications, as well as complaints that have a systemically significant risk to the Bank's operations. Through regular reporting and monitoring of complaints through the application Monitoring operational risk and clients complaints, the Bank aims to constantly improve and enhance its products and services, as well as quality.

IX LOCAL COMMUNITY

The foundations of Halkbank's socially responsible business are primarily in building and maintaining good relations with clients and employees, and therefore with the entire community. The motto "People First" is not just a sentence, but part of our corporate culture. We are proud of the relationships we build with our customers, because their satisfaction is a reflection of the Bank's efforts to achieve the best results. Establishing good relationships with clients, and therefore with the local and global community, is of great importance to us because creating these connections leads to building a better environment for joint growth and development.

The goal of the Bank is to positively influence the community that surrounds it, even during unforeseen, crisis geo-political situations. The bank constantly contributes to the local community through the realization of socially responsible initiatives, participates and contributes to the development of sports and recreation at the national level and strives to help those who need help the most on a daily basis. For the Bank's success as a stable and safe institution, apart from quality operations, it is equally important to take care of the community, without which no undertaking would be possible.

Support to culture

Sponsorship to the Organization of Music Authors of Serbia - SOKOJ for participation in the financing of the publication of the second updated edition of the book about the famous classical music author Josip Slavenski. This edition features the Halkbank logo.

Contribution to development to sport activities

Donation to the Wrestling Federation of Serbia for the organization of the Senior World Wrestling Championship, which was held in Belgrade in Stark Arena in the period from September 10 to September 18, 2022. With this gesture, the Bank, as a socially responsible company, continued the practice of helping and supporting the social community.

Celebrating the day of the Republic of Turkey

Sponsorship for participation in the celebration of the Republic of Turkey Day on October 31, 2022 at the Hyatt Belgrade hotel. At the ceremony itself, there was a Halkbank stand with prominent advertising material.

Serbian insurance days

Sponsorship for the organization of the conference "Serbian Insurance Days 2022", which took place in the period from November 15th, 2022. until November 18th. in the hotel Zlatibor Mountain Resort&Spa in Zlatibor. At the event itself, Halk animations were shown and the logo of the Bank was highlighted on all commercials, as well as on the website of the Association of Insurers of Serbia.

Support for education

The Bank donated furniture to the Trade and Hospitality School Leskovac. A certificate of appreciation was awarded for the contribution to the development of the school.

Environmental protection

In 2022, Halkbank, as a socially responsible company, implemented already established practice and measures in the field of environmental protection and thus mitigated the negative effects on the environment.

The fulfillment of the goals set, resulted in not having any penalties for non-compliance with environmental laws and regulations.

Procurement and supplier relationship

Procurement performed in the Bank is conducted in the spirit of good domestic business in order to ensure the quality of procurement while respecting ethical principles and professional standards.

Integrity, honesty, independence, objectivity, impartiality, political neutrality, prevention of conflicts of interest, confidentiality of information, competence and professional conduct are expected of employees participating in the procurement process.

The procurement process is defined by the Procedure which determines the authorizations in approval and verification depending on the value of the procurement. Limits have also been set for the selection of suppliers depending on the value of the procurement, and for all procurements over EUR 5,000, the Procurement Commission has significant role.

The Bank strives to be guided by the principles of "green procurement" at every opportunity, and to that end it procures and installs equipment with the highest energy efficiency, leases vehicles with the latest generation engines and uses exclusively PEFC (FSC) paper.

We build and nurture a professional relationship and encourage mutual cooperation with suppliers, equally valuing benefits and ethics. We strive to be a fair and honest partner and we firmly believe that a relationship based on trust and integrity will be sustainable and beneficial for all. We place the same demand on our suppliers, whom we expect to adhere to ethical standards, employment practices, environmental protection and occupational safety.

Environmental management system

The Bank uses resources responsibly and conscientiously, invests in sustainable development and thus strives to repay debt to society and communities. In order to protect the environment, it takes into account various aspects and continuously monitors key initiatives aimed at reducing the negative impact on the environment, such as:

- Rational consumption of energy and water
- Prevention of waste material generation
- Safe disposal of waste material
- Recycling

Conservation of natural resources

Indirect energy consumption refers to electricity used during the Bank's business activities, while direct energy consumption refers to the combustion of natural gas for heating purposes. In 2022, electricity consumption was 1,013 MWh.

Energy management

By investing and installing modern electronic equipment, the Bank contributes to the application of clean technologies and technologies that save electricity and emit less noise.

Reducing energy consumption and implementing energy management programs is the ultimate goal that the Bank implements by performing the following activities:

- Installation of energy efficient lamps and bulbs (LED lamps and bulbs) in all new and renovated business premises;
- Installation of MOBOTIX cameras that saves energy and IT resources for many years;
- Replacement of existing equipment with new, more energy efficient equipment;
- Installation of energy efficient air conditioners in all new and renovated business premises;
- Gradual replacement of outdoor advertising with a new type of advertising that has LED lighting;
- Leasing of environmentally friendly vehicles with the latest generation engines;
- The use of video and telephone conferencing to reduce business travel and fuel consumption;
- Lease a printer with an advanced printing system to reduce energy, paper and toner consumption.
- Implementation of an application solution for managing invoices in accordance with the Law on electronic invoicing, which reduces paper consumption;

- Implementation of an application solution for document management in order to create electronic and digitized documents.

Activities related to the structure, construction and maintenance of electrical installations, safety measures and responsibilities of employees as well as control of electricity consumption are defined in the Procedure for electrical installations and control of electricity consumption.

Waste management

In waste management, the Bank acts in accordance with positive legal regulations and implements an integrated waste management system, which includes:

- Waste prevention
- Reduction of waste and its hazardous characteristics
- Planning and control of waste management activities and processes
- Transport and disposal of waste
- Education of employees regarding waste management

All activities, systems and obligations of the Bank related to waste management are defined in the Waste Management Plan, which includes measures for waste management within the collection, transport, storage, treatment and disposal of waste.

The Bank has established a waste management system based on the following principles:

1. Reduction of waste at source
2. Reuse
3. Recycling
4. The principle of sustainable development
5. Principle of the waste management hierarchy
6. The precautionary principle
7. The principle of proximity and regional approach to waste management
8. The principle of choosing the most optimal option for the environment
9. The „polluter pays“ principle
10. Principle of responsibility

By applying the stated principles in environmental protection and waste management, the Bank also achieves economic benefits which are manifested in the reduction of costs of storage, handling, transport, treatment and final disposal of waste materials.

Waste recycling

The Bank has concluded an agreement with an authorized operator for the transport, disposal and treatment of hazardous waste, as well as an agreement on the takeover of secondary raw materials

of paper origin. Toner recycling is managed by a company that leases multifunctional devices to the bank.

In 2022, the Bank handed over 2,907 kg of hazardous electronic and electrical waste for destruction and recycling and 400 kg of paper.

GOALS FOR 2023:

In the implementation of business policy in the field of environmental protection, the Bank's goals for 2023 are:

- further improvement of the documentation management system in order to gradually switch to electronic business;
- replacement of existing video surveillance systems and installation of MOBOTIX cameras
- conducting training of employees in order to inform about the legal regulations related to environmental protection.
- continuation of activities on replacement of fluorescent lighting with LED lamps and light bulbs
- support to institutions and bodies of local self-governments in the creation and implementation of environmental policy, improvement of energy efficiency, preservation of natural resources and improvement of environmental financing.

X RISK MANAGEMENT

This chapter explains the risks, ie risk management mechanisms related to environmental issues, social and personnel issues, respect for human rights, corruption, in order to eliminate them completely.

Environmental risk management

The Bank recognizes that its operations can have direct or indirect impact on the environment and the community in which it operates. The bank's objective is to responsibly manage the environmental and social risks (hereinafter: E&S) associated with its operations in order to minimize E&S impacts and to enhance long-term returns to the Bank's shareholders.

Although the Bank's activity is classified in low E&S risk category, it is obliged to ensure that during its activities it will not take any actions that may jeopardise cultural and historical locations, natural resources, flora and fauna, or cause involuntary resettlement.

E&S risk is managed in the Bank in two ways:

- Directly through management E&S risks arising from the Bank's basic activity
- Through management E&S risk encountered by the Bank's clients

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

- Supervisory Board that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that implements the adopted policy and establishes the E&S Risk

Management Procedure,

- Credit Committee that monitors the Bank's exposure to E&S risk and proposes certain measures to be taken,
- Credit Division in charge of identification of E&S risk on the level of individual transaction or client to which certain credit products are granted,
- The Risk Management Department that is responsible for operational implementation of this Policy through monitoring and reporting of risk exposure to the bank's management and relevant authorities.

Key employees in charge of managing E&S risk as well as continuity in carrying out environmental and social risk management policy are: president of the Executive Board and the member of the Executive Board in charge of risk management, director of Credit Division, employees in Corporate and SME Credit Department, Credit Analysis Department, Credit Monitoring Department, employees in Collection Unit and employees in Risk Management Department.

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 the E&S Risk Management Procedure.

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,
- Credit 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 at the portfolio level by categories of E&S risks through the preparing and analysis of reports.

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 and
- Low

Environmental risk

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

Risk category	(in EUR thousand)				
	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31.12.2021.	31.12.2022.	31.12.2021.	31.12.2022.	
High – Exclusion List	0	0	0	0	0
High – Category A	17	15	11,484	11,351	-133
High	408	446	144,633	171,397	26,764
Medium	2,809	3,065	248,470	254,413	5,943
Low	2,451	2,583	268,702	317,828	49,126
Total	5,685	6,109	673,289	754,989	81,700

*For the purpose of analysis of environmental risk, the Bank includes only relevant part of portfolio.

In the structure of exposures (balance sheet and off-balance sheet exposures) to clients, legal entities and entrepreneurs, as of December 31, 2022, the largest share was held by clients with activities with low environmental and social impact 42.10%, then exposures to clients with activities with medium impact participate with 33.70% activities with high impact participate 22.70% and activities with high risk category A participate with 1.50%.

Social and personnel issues, respect for human rights and prevention of corruption

As for the risks related to social and personnel issues as well as respect for human rights, the Bank has completely eliminated these risks through the introduction of policies, procedures and instructions, as well as through the obligation of all employees to implement them.

Current policies, procedures and instructions are:

Code of Business Conduct and Ethical Principles

All employees of the Bank are obliged to adhere to all principles and working rules defined by the Code of Business Conduct and Ethical Principles. In this way, all disputes and conflicts that may arise between employees, clients and the Bank are avoided, but also contribute to the success and reputation of the Bank.

Anti-Corruption policy

The Bank is obliged not to show tolerance for corruption in all its operations and to operate in accordance with laws and regulations, international laws, ethical and business principles for the prevention of corruption. The policy applies to all employees, as well as to the Board of Directors. The policy also defines the way of its implementation, procedures in case of bribery and corruption, obligations of training and informing all employees, clearly defines possible risks so that this policy could not be violated or disregarded in any case (gifts, donations).

Whistleblowing rulebook

The Whistleblowing rulebook regulates the whistleblowing process at the Bank in accordance with the provisions of the Law and the Rulebook. Whistleblowing is the disclosure of information related to violations of regulations, human rights violations, exercise of public authority contrary to the purpose for which it was entrusted, threats to life, public health, safety, environment, as well as to prevent large-scale damage. All employees are familiar with the Rulebook.

Decision on the prevention of harassment at work

All employees of the Bank must be familiarised with the Decision on the prevention of harassment at work. The Rulebook prescribes the rules of conduct of employer and employees, ie other persons engaged by the Bank, in relation to the prevention and protection against harassment at work and in relation to work, ie sexual harassment.

The Labour rulebook regulates the rights, obligations and responsibilities arising from the work contract. The rulebook applies to all employees employed by the Bank.

An effective employee appraisal system is one of the key tools for achieving the bank's organizational goals, therefore **the Employee Appraisal System Procedure** precisely defines activities related to employee performance management and as such it is applied in all organizational parts of the Bank.

Establishment and termination of employment and keeping records of employees - which describes the process of establishment (selection), termination of employment, as well as induction training where the new employee is introduced to the rules, procedures of the bank and basic activities of all sectors in the bank.

Employee training procedure - this procedure defines the identification of needs and launching initiatives for training, training planning and type of training, evaluation of training to ensure that bank employees develop the required skills and knowledge to perform their jobs and activities.

HALKBANK A.D. BELGRADE

Financial Management and Budgeting Division
Aleksandar Mijailović

Member of Executive Board
Dušica Erić

President of Executive Board
Aziz Arslan

Whistleblowing rulebook

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All employees of the Bank must be familiarised with the Decision on the prevention of harassment at work. The Rulebook prescribes the rules of conduct of employer and employees, ie other persons engaged by the Bank, in relation to the prevention and protection against harassment at work and in relation to work, ie sexual harassment.

The Labour rulebook regulates the rights, obligations and responsibilities arising from the work contract. The rulebook applies to all employees employed by the Bank.

An effective employee appraisal system is one of the key tools for achieving the bank's organizational goals, therefore **the Employee Appraisal System Procedure** precisely defines activities related to employee performance management and as such it is applied in all organizational parts of the Bank.

Establishment and termination of employment and keeping records of employees - which describes the process of establishment (selection), termination of employment, as well as induction training where the new employee is introduced to the rules, procedures of the bank and basic activities of all sectors in the bank.

Employee training procedure - this procedure defines the identification of needs and launching initiatives for training, training planning and type of training, evaluation of training to ensure that bank employees develop the required skills and knowledge to perform their jobs and activities.

HALKBANK A.D. BELGRADE


Financial Management and Budgeting Division
Aleksandar Mijailović


Member of Executive Board
Dušica Erić




President of Executive Board
Aziz Arslan