



# **ANNUAL OPERATING REPORT FOR 2015**

**Belgrade, March 2016**

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

## **1. ESTABLISHMENT**

Turkiye Halk Bankasi A.S. from the Turkish Republic was established in 1933. It occupies a high position in the Turkish banking sector – it is the sixth largest bank in Turkey, regarding assets. In Turkey Halkbank has a branch network of 886 branches and over 15.000 employees. On 27<sup>th</sup> May 2015 by payment of EUR 10,1 miliona Turkiye Halk Bankasi, gained the ownership of 139.680 shares which comprise 76,75% of the share capital of Čačanska banka, after which it officially became a majority owner of Čačanska banka a.d. Čačak.

The Bank is registered in the Register of business Entities of the Republic of Serbia under the number BD 54244 dated 13<sup>th</sup> September 2005.

Under the name of Halkbank a.d. Beograd Bank has been operating since 22<sup>nd</sup> October 2015. when the number in Register of business Entities has changed in BD 89155/2015.

## **2. ORGANISATION OF OPERATIONS**

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

As at 31 December 2015 the Bank was comprised of 3 branches in Belgrade, 12 branch offices located in the towns of Jagodina, Gornji Milanovac, Čačak, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Novi Sad, and 9 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac and Čačak (2 sub-branches).

### 3. BASIC OPERATING RATIOS

<b>Income Statement (in EUR 000)</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015.</b>
Net interest income	9.941	9.695	9.880
Net fee and commission income	4.683	4.733	4.669
Profit / Loss before taxation	(2.287)	(1.544)	(2.535)
Profit / Loss after taxation	(2.278)	(1.525)	(2.535)
<b>Balance Sheet (in EUR 000)</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015.</b>
Loans and advances to customers	181.280	157.032	185.240
Customers deposits	121.268	124.480	124.388
Equity	39.002	47.192	45.206
Balance sheet assets	262.698	262.565	274.002
Off-balance sheet items	405.097	429.920	392.642
<b>Basic financial ratios</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015.</b>
Operating expenses / Net interest, fee and commission income	62,61%	66,77%	67,50%
Capital adequacy	12,81%	15,79%	14,50%
<b>Number of employees</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015.</b>
	385	377	406
<b>Exchange rate</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015</b>
<b>RSD/EUR</b>	120,9583	121,6261	125
<b>Liquidity ratios</b>	<b>2014.</b>	<b>2015.</b>	<b>Plan for 2015</b>
Average liquidity ratio	2,71	2,55	1,5
Average liquid asset ratio	26,91%	28,78%	24%

HALKBANK a.d. Belgrade made a negative operating result in 2015 amounting to EUR 1.544 thousand. Negative result after tax calculation amounts to EUR 1.525 thousand, due to the creation of profit from the increase in deferred tax assets during 2015.

Balance sheet assets totalled EUR 262.565 thousand as at 31.12.2015 which accounts for a 0,05% decrease compared to the end of 2014.

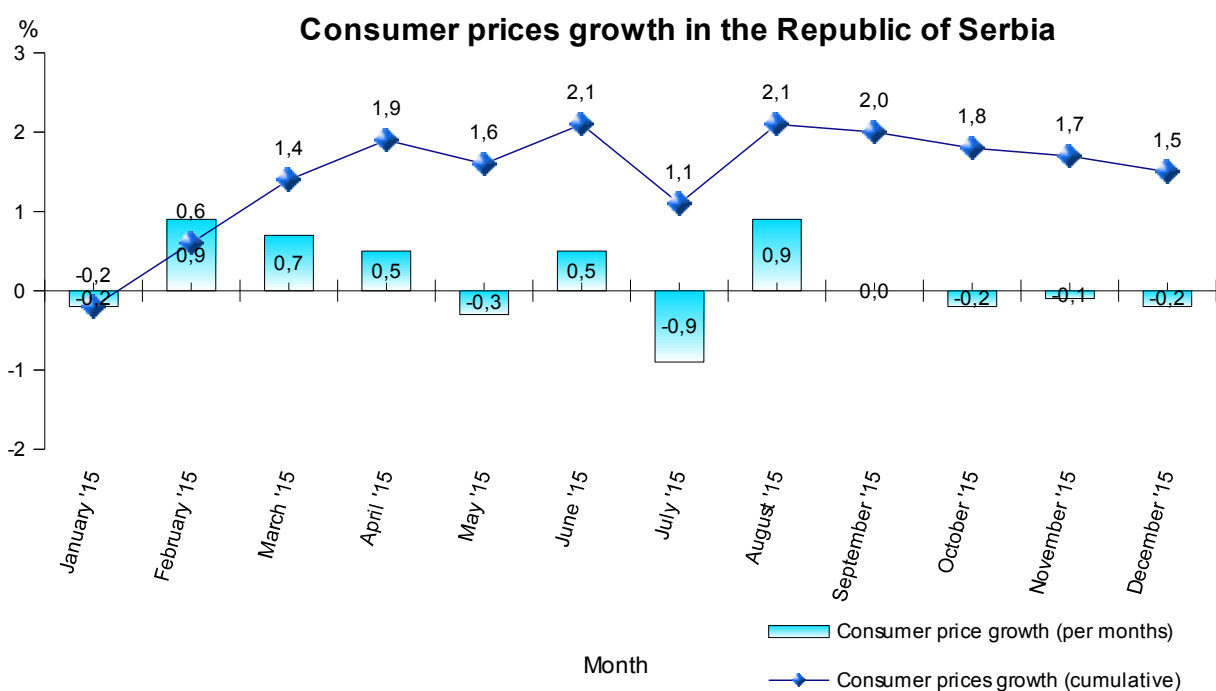
Off-balance sheet assets as at 31.12.2015 came to EUR 429.920 thousand, growing by 6,13% compared to the end of 2014.

Business and retail loans as at 31.12.2015 decreased by 13,37% compared to the end of 2014, while business and retail deposits increased by 2,65%.

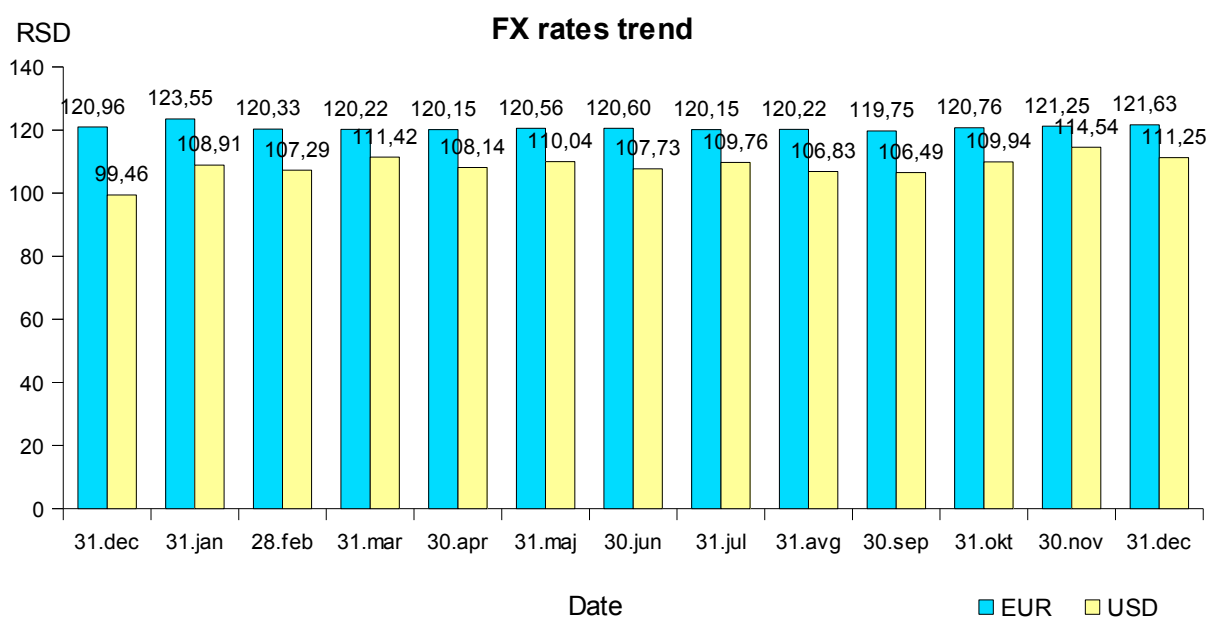
In the 2015 the Bank conducted domestic payment operations and processed 8.802.667 orders of legal entities amounting approximately to EUR 7.167 million. Of such amount, 6.322.774 orders accounted for the executed orders of the Bank's clients (inflows and outflows in internal and external payments) in the amount of approximately EUR 3.603 million. As compared to the same period in 2014, the number of orders increased by 5,52%, whereas the volume of payment operations increased by 9,20%.

## II FINANCIAL POSITION AND OPERATING RESULTS

### 1. MACROECONOMIC ENVIRONMENT

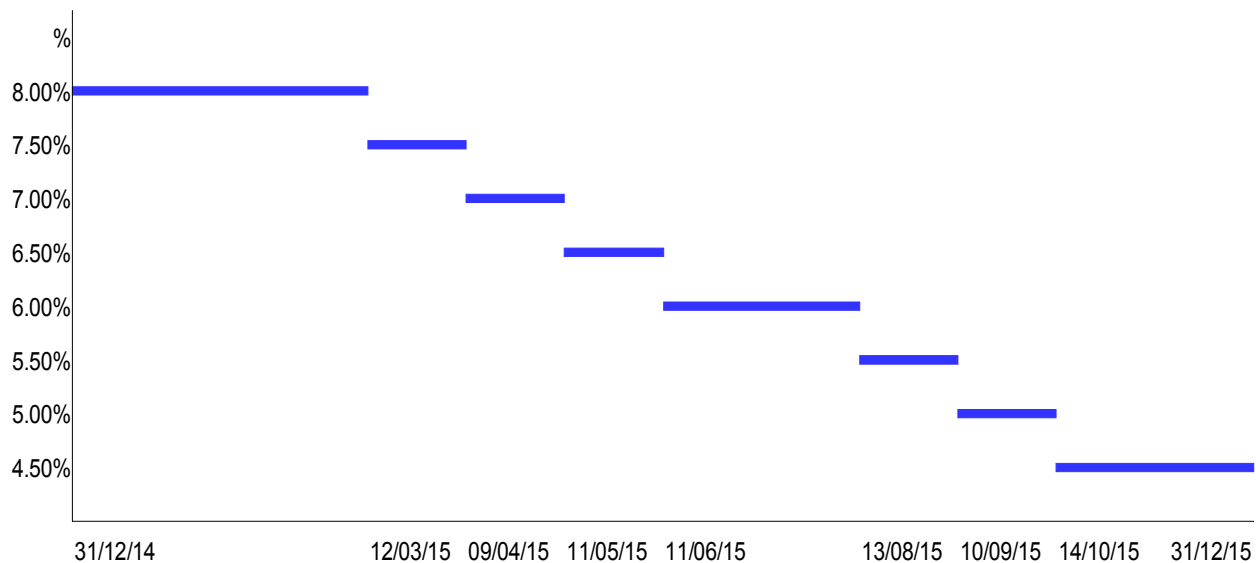


During the 2015 the growth of consumer prices equalled cumulatively 1,50%. The highest monthly growth was in February and August, it was 0,90%.



In the 2015, RSD depreciated against EUR by 0,55%, and it depreciated against USD by 11,85%.

### Fluctuation of the NBS referent rate



In the 2015 the National Bank of Serbia Executive Board reduced the reference rate 7 times, from 8% as at the year beginning to 4,50% as at the end 2015.

In this period six-months' EURIBOR moved from 0,17% to -0,04%. Six-months' BELIBOR equalled 9,79% at the end of 2014, while at the end of 2015 it was 4,03%.

## 2. IMPLEMENTATION OF BASIC OPERATING TARGETS

The targets set out in the Operating Policy for 2015 were implemented through the following activities:

1. On 27<sup>th</sup> May 2015 by payment of EUR 10,1 miliona Halk Bank (Turkiye Halk Bankasi A.S. from the Turkish Republic), gained the ownership of 139.680 shares which comprise 76,75% of the share capital of Čačanska banka, after which it officially became a majority owner of Čačanska banka a.d. Čačak.
2. Capital Adequacy Ratio was 15,79%, as at 31.12.2015 and it was above planned 14,50%.
3. On 10<sup>th</sup> September 2015 the Contract for the lease of business premises in the building GTC 41 in Novi Beograd was signed, the area of 1.408 m<sup>2</sup> on the third floor, where now is Head Office of the Bank. Head Office of the Bank began operations in new premises on 20<sup>th</sup> November 2015.
4. In 2015 the Bank was successfully maintaining the average Liquidity Ratio and Liquid Assets Ratio above the planned values for 2015. Minimum Liquidity Ratio was 1,47 (according to the plan it should not fall below 1,50), while minimum Liquid Assets Ratio was 24,41% (according to the plan it should not fall below 24%).
5. The Bank finished 2015 with a loss of EUR 1.525 thousand, due to anticipated high net losses on impairment of financial assets and credit risk-weighted off-balance sheet items amounting to EUR 6.263 thousand. The ratio of operating expenses to net interest, fee and commission income in 2015 was 66,77% which was in line with the target to keep this ratio below 67,50%.
6. The business and retail loan portfolio reduced in 2015 by 13,37% compared to 31.12.2014. The retail loan portfolio grew by 7,23%, while the business loan portfolio fell by 17,66%. One of the reasons for this decrease was that during 2014, on the basis of the Regulation on subsidizing interest rates for 2014, as of June 2014 were conducted 1.170 loans in the total amount of 3.741.553 thousand RSD. Loans were granted for period up to 18 months, so they were paid off by the end of 2015.
7. The deposit base at the end of 2015 was higher by 3,20% relative to the end of 2014. During the 2015 the Bank repaid the regular principal under IFI's long-term loan facilities in the amount of EUR 15.437 thousand.
8. In the fourth quarter of 2015 the Bank started Branch Network Development, first in Belgrade by transforming former Credit Center for SME to the new branch – NEW MILL. For January 2016, it is planned opening new Retail outlet in Aleksinac, and further widening of branch network.
9. On the Bord of the Directors meeting that was held on 28<sup>th</sup> August 2015, Proposal of the Decision on changing the name and the headquarters of the Bank was adopted. The Assembly of the Bank made a final decision on 15<sup>th</sup> October 2015 and the promotion of the Bank as a new brand at the Serbian banking market began.
10. In the 2015 integration of the CRM application in CORE system of the Bank has been finished.

### 3. BALANCE SHEET

Total balance sheet assets as at 31.12.2015 amounted to EUR 262.565 thousand and accounts for a 0,05% decrease relative to the end of 2014.

#### 3.1. Assets

(in EUR 000)

ASSETS	31.12.2014	31.12.2015	Plan for 31.12.2015
Cash and assets held with the central bank	45.404	33.557	46.600
Pledged financial assets	-	4.808	0
Financial assets recognised at fair value through income statement and held for trading	2.330	2.428	6.800
Financial assets available for sale	309	2.009	400
Financial assets held to maturity	-	28.359	0
Loans and receivables from banks and other financial organisations	23.142	25.136	24.000
Loans and receivables from clients	183.448	157.824	187.520
Intangible investments	377	231	517
Property, plant and equipment	5.178	5.168	5.600
Investment property	1.106	1.069	1.040
Deferred tax assets	497	513	480
Other assets	907	1.463	1.045
<b>TOTAL ASSETS</b>	<b>262.698</b>	<b>262.565</b>	<b>274.002</b>

The following table gives the currency structure of assets:

Assets	31.12.2014	%	31.12.2015	%
Dinars	80.188	30,52%	90.693	34,54%
Foreign currency	182.510	69,48%	171.872	65,46%
<b>Total:</b>	<b>262.698</b>	<b>100,00%</b>	<b>262.565</b>	<b>100,00%</b>

In total assets, short-term assets accounted for 49,65%, long-term 50,35%.



### 3.1.1 Cash and assets held with the central bank

Cash, cash equivalents and foreign currency part of required reserve with the central bank amounted to EUR 33.557 thousand as at 31.12.2015 relating to the following:

(in EUR 000)

Item	31.12.2014	31.12.2015
Giro account and cash on hand in RSD	14.024	12.149
Deposits of surplus of liquid assets	-	2.878
Cash on hand in foreign currency	3.860	2.007
Required reserve with the NBS – fx part	16.370	13.167
Foreign currency deposits with the NBS	11.150	3.356
<b>Total:</b>	<b>45.404</b>	<b>33.557</b>

The balance of the deposited funds – the funds set aside with the NBS for the required reserve as at 31.12.2014 and 31.12.2015 is presented in the following table:

(in EUR 000)

Item	31.12.2014	31.12.2015
Required reserve - dinars	10.953	9.795
Required reserve – foreign currency	16.370	13.167
<b>Total:</b>	<b>27.323</b>	<b>22.962</b>

During the 2015 the funds set aside for a required reserve with the NBS decreased by EUR 4.211 thousand.

### 3.1.2 Financial assets recognised at fair value through income statement, held for trading and financial assets available for sale, held to maturity and financial assets

The structure of items of financial assets as at 31.12.2014 and 31.12.2015 is presented in the following table:

(in EUR 000)

Items	31.12.2014	31.12.2015
<b>Financial assets at fair value recognised through income statement held for trading:</b>	<b>2.330</b>	<b>2.428</b>
- shares of banks and other financial organisations	65	68
- shares of enterprises	118	155
- the Republic of Serbia bonds – foreign exchange savings	2.147	2.205
<b>Financial assets available for sale</b>	<b>309</b>	<b>2.009</b>
- local government bonds	309	757
- treasury bills of the Republic of Serbia in foreign currency	-	1.252
<b>Financial assets held to maturity</b>	<b>-</b>	<b>28.359</b>
-- treasury bills of the Republic of Serbia in domestic currency	-	24.894
- treasury bills of the Republic of Serbia in foreign currency	-	3.465
<b>Pledged financial assets</b>	<b>-</b>	<b>4.808</b>
- treasury bills of the Republic of Serbia in foreign currency	-	2.945
- the Republic of Serbia bonds – foreign exchange savings	-	1.864
<b>Total:</b>	<b>2.639</b>	<b>37.604</b>

Total portfolio of securities held for trading amounted to EUR 2.428 thousand at the end of 2015 and consisted of shares of banks and other financial organisations, shares of enterprises and bonds of the Republic of Serbia.

As at 31.12.2015 the Bank owned the Republic of Serbia bonds – foreign exchange savings, in the nominal value of EUR 4,07 million, and/or EUR 4.068 thousand market value. Of these amount, EUR 2.205 thousand refers to bonds held for trading, and EUR 1.864 thousand relates to bonds that are pledged. Bonds accounted for 94,80% of the Bank's total portfolio.

In the securities portfolio the Bank had 12 different shares of total market value EUR 223 thousand, which is 5,20% of total portfolio.

As security for deposits of Jugobanka a.d. Belgrade in bankruptcy, Astra banka a.d. Belgrade in bankruptcy, Invest banka a.d in bankruptcy and Railway Credit Union, the Bank pledged treasury bills in the total nominal amount of EUR 2.917 thousand and the Republic of Serbia bonds – foreign exchange savings in the amount of EUR 1.872 thousand.

### 3.1.3 Loans and receivables from banks and other financial organisations

Foreign currency accounts with banks and loans to banks amounted to EUR 25.136 thousand as at 31.12.2015.

(in EUR 000)

<b>Item</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>% of increase/ decrease</b>
Foreign currency accounts with banks	10.114	6.474	-45,88%
NBS placements under repurchase transactions	3.307	10.690	223,25%
Revocable deposits to banks	4.960	2.000	-59,68%
Loans and deposits to banks and other financial organisations	4.687	5.954	27,03%
Accrued interest receivable under loans, deposits and other placements	74	18	-75,67%
<b>Total:</b>	<b>23.142</b>	<b>25.136</b>	<b>8,62%</b>

### 3.1.4 Loans and receivables from clients

The structure of item Loans and receivables from clients as at 31.12.2014 and 31.12.2015 is given in the following table:

(in EUR 000)

Loans and receivables from clients	31.12.2014	31.12.2015	% of increase/ decrease
Loans and deposits to business and retail clients	178.242	153.609	-13,82%
Other loans to business and retail clients	3.038	3.423	12,67%
Receivables for accrued interest and fees under loans, deposits and other placements	2.168	792	-63,47%
<b>Total:</b>	<b>183.448</b>	<b>157.824</b>	<b>-13,97%</b>

The loan portfolio structure is provided in the following table:

(in EUR 000)

Loan portfolio	31.12.2014	31.12.2015	Plan 31.12.2015.	% of increase/ decrease
Business clients	150.052	123.545	153.040	-17,66%
Retail clients	31.228	33.487	32.200	7,23%
<b>Total:</b>	<b>181.280</b>	<b>157.032</b>	<b>185.240</b>	<b>-13,37%</b>

The Bank's loan portfolio comprising of business and retail loans decreased during the 2015 by 13,37%. The main reason for portfolio decrease is very weak demand, especially for investment loans, by business clients.

(in EUR 000)

Loan portfolio	Plan for 2015	Portfolio change during 2015
Business clients	2.988	(25.683)
Retail clients	972	2.430
<b>Total:</b>	<b>3.960</b>	<b>(23.253)</b>

In 2015 the Bank approved to business and retail clients EUR 97.151 thousand of loans, of which EUR 35.358 thousand for loans up to one year maturity and EUR 61.793 thousand of loans over one year maturity.

## - Business lending

Gross business loans as at 31.12.2015 totalled EUR 162.368 thousand with the following structure:  
(in EUR 000)

Loan type	Currency	Balance 31.12.2014	Balance 31.12.2015	% of increase/ decrease
Loans from the Bank's potential	RSD	16.376	25.666	75,06%
Loans from the Bank's potential- subsidy	RSD	27.849	4.338	-84,42%
Loans from the Bank's potential	EUR	71.871	77.825	8,28%
Loans from the EBRD facility loans	EUR	541	181	-66,54%
Loans to SMEs from the Revolving Credit Fund (EAR)	EUR	14.668	12.791	-12,80%
HIT loans from the EFSE facility	EUR	6.567	6.149	-6,36%
Loans from the GGF facility	EUR	1.516	211	-86,08%
Loans covered with EIF guarantee	EUR	5.069	1.648	-67,49%
HIT Energy loans from KfW facility	EUR	1.500	1.845	23,00%
Loans from the EIB facility	EUR	33.640	29.667	-11,81%
Loans from the FMO facility	EUR	2.876	1.204	-58,14%
Investment loans from the Italian Government facility	EUR	1.194	713	-40,28%
Loans from the IFC facility	EUR	277	129	-53,43%
<b>Total:</b>		<b>183.945</b>	<b>162.368</b>	<b>-11,73%</b>

The number of credit clients is presented in the following table:

Number of credit clients	31.12.2014	31.12.2015	% of increase / decrease
Business clients	3.739	3.544	-5,22%

## - Retail lending

The total gross retail placements as at 31.12.2015 amounted to EUR 34.065 thousand with the following structure:

(in EUR 000)

Type of loan	Balance 31.12.2014	Balance 31.12.2015	% of increase / decrease
Consumer loans – EE/RE	4.848	4.379	-9,67%
Consumer loans – car loans	786	497	-36,77%
Consumer loans – other purposes	2.025	1.102	-45,58%
Cash loans	7.269	10.769	48,15%
Housing loans	15.172	15.569	2,62%
Receivables against DinaCard credit card	170	132	-22,35%
Overdraft	738	684	-7,32%
Unauthorized overdraft against current accounts and loan receivables due	724	933	28,87%
<b>Total:</b>	<b>31.732</b>	<b>34.065</b>	<b>7,35%</b>

Retail gross placements grew by 7,35% in the 2015 relative to the end of 2014.

The number of retail credit clients is given in the following table:

Number of credit clients	31.12.2014	31.12.2015	% of increase / decrease
Retail clients	12.961	13.592	4,87%

Regarding card operations, the Bank issued four types of payment cards in the 2015:

Type of card	No.of active cards from 01.01. to 31.12.2014	No.of active cards from 01.01. to 31.12.2015	% of increase / decrease
Visa Business	764	814	6,54%
Visa Classic	879	1.554	76,79%
Dina Debit	10.598	10.804	1,64%
Dina Credit	654	538	-17,74%
<b>Total:</b>	<b>12.895</b>	<b>13.710</b>	<b>6,32%</b>

### 3.2. Liabilities

Total liabilities as at 31.12.2015 came to EUR 262.565 thousand with the following structure:

(in EUR 000)

LIABILITIES	31.12.2014	31.12.2015	Plan for 31.12.2015
Deposits and other liabilities to banks, other financial organisations and central bank	14.614	5.778	14.500
Deposits and other liabilities to other clients	191.719	192.174	197.569
Subordinated liabilities	15.228	15.225	14.560
Provisions	460	753	480
Other liabilities	1.675	1.443	1.687
<b>TOTAL LIABILITIES</b>	<b>223.696</b>	<b>215.373</b>	<b>228.796</b>
Share capital	25.203	34.931	34.388
Profit	35	-	-
Loss	2.279	1.525	2.535
Reserves	16.043	13.786	13.353
<b>TOTAL CAPITAL</b>	<b>39.002</b>	<b>47.192</b>	<b>45.206</b>
<b>TOTAL LIABILITIES</b>	<b>262.698</b>	<b>262.565</b>	<b>274.002</b>

In terms of currency structure, there was the following balance:

(in EUR 000)

Liabilities	31.12.2014	%	31.12.2015	%
Dinars	75.898	28,89%	90.102	34,32%
Foreign currency	186.800	71,11%	172.463	65,68%
<b>Total:</b>	<b>262.698</b>	<b>100,00%</b>	<b>262.565</b>	<b>100,00%</b>

In terms of maturity, short-term liabilities accounted for 54,19%, and long-term for 45,81%.

### 3.2.1 Deposits and other liabilities to banks, other financial organisations and central bank

The structure of the item Deposits and other liabilities to banks, other financial organisations and central bank and a comparative analysis as at 31.12.2014 and 31.12.2015 is presented in the following table:

(in EUR 000)

Item	31.12.2014	31.12.2015	% of increase/ decrease
<b>Transaction and other deposits</b>	<b>1.438</b>	<b>2.027</b>	<b>40,96%</b>
- transaction deposits	81	164	102,47%
- other deposits	1.357	1.863	37,29%
<b>Borrowed loans in foreign currency:</b>	<b>13.042</b>	<b>3.136</b>	<b>-75,95%</b>
- EBRD	2.014	671	-66,68%
- GGF*	3.635	-	-
- IFC	2.143	714	-66,68%
- FMO	5.250	1.750	-66,67%
<b>Other liabilities</b>	<b>134</b>	<b>615</b>	<b>358,95%</b>
<b>Total:</b>	<b>14.614</b>	<b>5.778</b>	<b>-60,46%</b>

### 3.2.2 Deposits and other liabilities to other customers

The structure of the item Deposits and other liabilities to other customers and a comparative analysis as at 31.12.2014 and 31.12.2015 is presented in the following table:

(in EUR 000)

Item	31.12.2014	31.12.2015	% of increase/ decrease
<b>Transaction and other deposits</b>	<b>139.448</b>	<b>139.763</b>	<b>0,22%</b>
- transaction deposits	49.050	59.558	21,42%
- other deposits	77.425	67.839	-12,38%
- RCF-EAR long-term deposits	12.973	12.366	-4,68%
<b>Borrowed loans in foreign currency:</b>	<b>50.914</b>	<b>51.588</b>	<b>1,32%</b>
- KfW	4.545	3.636	-20,00%
- EIB	45.248	44.548	-1,55%
- Italian Republic Government	1.121	679	-39,43%
- GGF	-	2.725	100,00%
<b>Other liabilities</b>	<b>1.357</b>	<b>823</b>	<b>-39,35%</b>
<b>Total:</b>	<b>191.719</b>	<b>192.174</b>	<b>0,24%</b>

In the 2015 the Bank repaid the principle of long-term loans to IFI's on a regular basis, and on this ground the total of EUR 15.437 thousand was repaid.

\*Liabilities arising from the GGF loan were booked until 28.02.2015 in the item: Deposits and other liabilities to banks, and according to the NBS request and adjustments of the sector structure, these liabilities have been booked since 28.02.2015 in the item: Deposits and other liabilities to other customers.



Deposit base of the Bank, comprising of corporate and retail deposits equalled EUR 124.480 thousand and had the following structure by clients:

(in EUR 000)

<b>Deposit base</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015</b>	<b>% of increase / decrease</b>
Business clients	54.029	59.178	54.768	9,53%
Retail clients	67.239	65.302	69.620	-2,88%
<b>Total:</b>	<b>121.268</b>	<b>124.480</b>	<b>124.388</b>	<b>2,65%</b>

Average daily balance of business transaction deposits in the 2015 amounted to EUR 19.988 thousand where the lowest average of EUR 16.392 thousand was made in February and the highest of EUR 23.666 thousand in December 2015.

In the 2015, retail deposits decreased by EUR 1.937 thousand which accounted for a 2,88% decrease compared to the end of 2014.

(in EUR 000)

<b>Retail deposits</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>% of increase / decrease</b>
<b>In dinars</b>	<b>6.296</b>	<b>7.299</b>	<b>15,92%</b>
- sight deposits	4.590	5.428	18,26%
- term deposits	1.706	1.871	9,67%
<b>In foreign currency</b>	<b>60.943</b>	<b>58.003</b>	<b>-4,82%</b>
- sight deposits	16.573	12.278	-25,92%
- term deposits	44.370	45.725	3,05%
<b>Total:</b>	<b>67.239</b>	<b>65.302</b>	<b>-2,88%</b>

### 3.2.3 Subordinated liabilities

The structure of the item Subordinated liabilities is given in the following table:

(in EUR 000)

Structure of item Other liabilities	31.12.2014	31.12.2015	% of change
Subordinated liabilities	15.000	15.000	-
Prepaid fee on subordinated liabilities (deductible item in Balance Sheet)	42	29	-30,95%
Accrued interest on subordinated liabilities	270	254	-5,93%
<b>Total:</b>	<b>15.228</b>	<b>14.990</b>	<b>-1,56%</b>

Subordinated liabilities in foreign currency related to the liabilities towards the European Fund for Southeast Europe – EFSE and they totalled EUR 15 million.

### 3.2.4 Capital

The capital of the Bank as at 31.12.2015 equalled EUR 47.192 thousand and comprised the following:

(in EUR 000)

Item	31.12.2014	31.12.2015
Share capital – ordinary shares	15.045	14.962
Share capital – preference shares	12	11
Share capital - preference non-cum. shares	-	4.933
Share premium	10.147	15.024
Revaluation reserves	2.557	2.607
Reserves from profit	13.485	11.180
Retained earnings	35	-
Loss up to the level of capital	2.279	1.525
<b>Total capital:</b>	<b>39.002</b>	<b>47.192</b>

The number of shares and the percentage of the shareholders share in equity as at 31.12.2015 are presented in the following table:

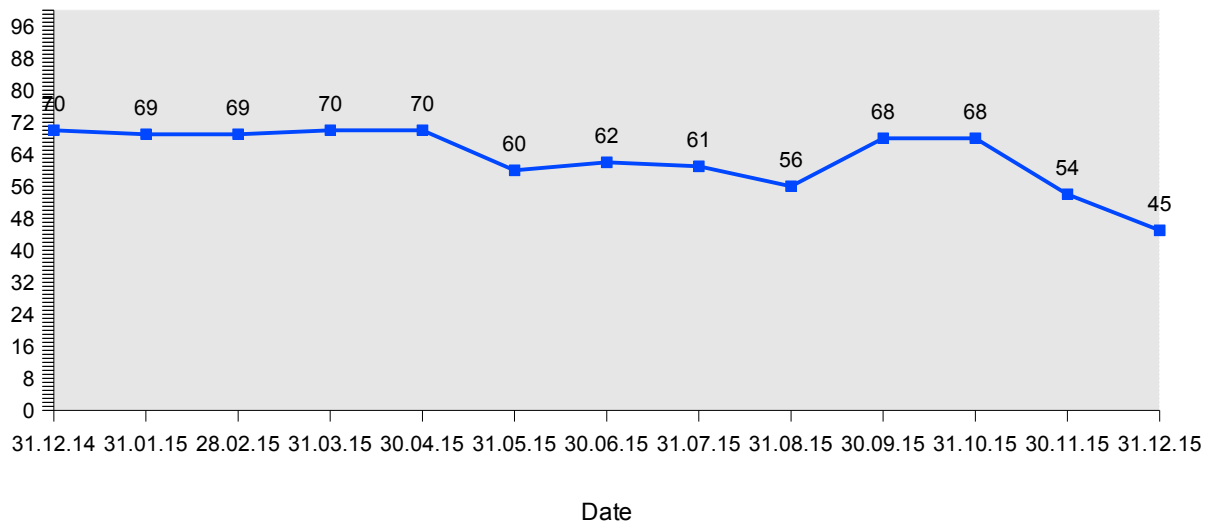
No.	SHAREHOLDERS	Number of shares	% of share
<b>ORDINARY SHARES</b>			
1.	TURKIYE HALK BANKASI AS - Istanbul	139.680	76,75%
2.	RAIFFEISEN BANKA AD KASTODI RAČUN - Koper	8.065	4,43%
3.	EAST CAPITAL – BALKAN FUND – Luxemburg	6.879	3,78%
4.	METALAC AD – G. Milanovac	3.044	1,67%
5.	ORGANIC FOODS, DRINKS – Bristol	2.941	1,62%
6.	MANDAT DOO – Beograd	2.334	1,28%
7.	ELEKTROSRBIJA JP – Kraljevo	1.518	0,83%
8.	TERMOTEHNA DOO – Žabljak	1.331	0,73%
9.	MILAN GRBA – Leštane, Srbija	1.230	0,68%
10.	VOJVOĐANSKA BANKA – KASTODI RAČUN	1.115	0,61%
11.	OTHERS	13.845	7,62%
<b>ORDINARY SHARES TOTAL:</b>		<b>181.982</b>	<b>100,00%</b>
<b>PREFERRED NON-CUMULATIVE SHARES</b>			
1.	TURKIYE HALK BANKASI AS - Istanbul	60.000	100,00%
<b>PREFERRED NON-CUMULATIVE TOTAL</b>		<b>60.000</b>	<b>100,00%</b>
<b>PREFERRED CUMULATIVE SHARES</b>			
1.	SP JUGOPREVOZ DP U STEČAJU - Jagodina	44	32,84%
2.	GTPD DOMIS DOO - Čačak	29	21,64%
3.	MP INTERFOOD - Čačak	18	13,43%
4.	OSTALI	43	32,09%
<b>PREFERRED CUMULATIVE SHARES TOTAL</b>		<b>134</b>	<b>100,00%</b>
<b>TOTAL:</b>		<b>242.116</b>	<b>100,00%</b>

The information about the number of shareholders and the basic information of shares:

Information of shares	31.12.2014	31.12.2015
Number of shareholders	409	409
Number of shares	182.116	242.116
Nominal value per share	10.000	10.000
Book value per share (in EUR)	214,16	194,92

The price of Banka's share as at 31.12.2015 was EUR 45,22 accounting for a 18,42% decrease relative to the price at the beginning of the year.

**Price of Halkbank's share  
from 01.01. do 31.12.2015**



#### IV OFF-BALANCE SHEET ITEMS

During the 2015 the Bank issued performance and payment guarantees and opened letters of credit for its clients. The structure of off-balance sheet items as at 31.12.2014 and 31.12.2015 is presented in the following table:

(in EUR 000)

Item	31.12.2014	31.12.2015	Plan 31.12.2015
Operations performed for and behalf of third parties	2.657	2.399	2.640
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	37.435	44.110	36.800
Other off-balance sheet items	365.004	383.411	353.202
<b>Total:</b>	<b>405.096</b>	<b>429.920</b>	<b>392.642</b>

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as at 31.12.2014 and 31.12.2015:

(in EUR 000)

Guarantees, avals, acceptances and irrevocable liabilities	31.12.2014	31.12.2015	% of increase / decrease
Payment guarantees	13.153	13.667	3,91%
Issued uncovered letters of credit in foreign currencies	302	116	-61,59%
Performance guarantees	18.385	18.683	1,62%
Avals and bill acceptances	15	-	-
Pledged securities	-	4.808	-
Irrevocable commitments	5.580	6.836	22,51%
<b>Total:</b>	<b>37.435</b>	<b>44.110</b>	<b>17,83%</b>

In this period the Bank issued guaranteeing instruments in the total amount of EUR 28.620 thousand, namely:

(in EUR 000)

Guarantees, L/Cs, avals and bill acceptances	01.01 – 31.12.2014	01.01 – 31.12.2015	% of increase / decrease
Payment guarantees	9.238	10.963	18,67%
Uncovered LCs	1.876	442	-76,44%
Performance guarantees	22.757	26.124	14,79%
Avals and bill acceptances	8	-	-100,00%
<b>Total:</b>	<b>33.879</b>	<b>37.529</b>	<b>10,77%</b>

In the 2015 the amount of issued guarantees increased by 10,77% compared to the amount issued in year 2014.

The table below presents a comparative analysis of the structure of Other off-balance sheet items:

(in EUR 000)

<b>Other off-balance sheet items</b>	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>% of increase / decrease</b>
Receivables for evidencing interest	22.644	30.594	35,11%
Republic of Serbia bonds by maturities	11.380	9.216	-19,02%
Unconditional revocable commitments under frame loans and revocable commitments for unutilised off-balance sheet items in RSD and fx	14.454	15.028	3,97%
Loan frame	8.744	10.325	18,08%
Received material assets of collateral in favour of the Bank	299.926	309.305	3,13%
Received guarantees and other sureties for settlement of obligations by the Bank's borrowers	7.230	7.197	-0,46%
Other off-balance sheet items	626	1.744	178,59%
<b>Total:</b>	<b>365.004</b>	<b>383.411</b>	<b>5,04%</b>

In accordance with the new Chart of Accounts for Banks, off-balance sheet records are kept for received material assets, guarantees and other sureties for settlement of obligations by the Bank's borrowers, starting from the annual financial statements for 2014. The amount booked in the 2015 was EUR 316.502 thousand and related to the estimated collateral value.

## 5. STATEMENT OF INCOME

The Bank calculated items of the Statement of Income during the 2015 in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank finished its operations in the 2015 with a loss of EUR 1.544 thousand. The loss after taxation is EUR 1.525 thousand, due to profit from deferred tax assets during 2015.

(in EUR 000)

ITEM	31.12.2014	31.12.2015	Plan for 31.12.2015	% of plan accomplished
Interest income	15.536	13.376	15.360	87,08%
Interest expenses	5.594	3.681	5.480	67,17%
<b>Net interest income</b>	<b>9.942</b>	<b>9.695</b>	<b>9.880</b>	<b>98,13%</b>
Fee and commission income	5.314	5.418	5.264	102,93%
Fee and commission expenses	631	685	595	115,13%
<b>Net fee and commission income</b>	<b>4.683</b>	<b>4.733</b>	<b>4.669</b>	<b>101,37%</b>
Net gains on financial assets held for trading	161	216	80	270,00%
Net gains on exchange rate and effects of contracted index clause	116	-	80	-
Net losses on exchange rate and effects of contracted index clause	-	86	-	-
Other operating income	270	365	264	138,26%
Net losses on impairment of financial assets and credit risk-weighted off-balance sheet items	7.957	6.263	7.500	83,51%
<b>TOTAL NET OPERATING INCOME</b>	<b>7.214</b>	<b>8.661</b>	<b>7.473</b>	<b>115,90%</b>
Salaries, salary compensation and other personal expenses	4.201	4.332	4.384	98,81%
Depreciation costs	769	789	800	98,62%
Other expenses	4.532	5,084	4.824	150,39%
<b>PROFIT / LOSS BEFORE TAXATION</b>	<b>(2.288)</b>	<b>(1.544)</b>	<b>(2.535)</b>	<b>60,91%</b>
<b>Profit from deferred taxes</b>	<b>9</b>	<b>19</b>	<b>-</b>	<b>-</b>
<b>PROFIT / LOSS AFTER TAXATION</b>	<b>(2.279)</b>	<b>(1.525)</b>	<b>(2.535)</b>	<b>60,91%</b>

The net interest income was by 1,87% lower than the plan for the 2015 and the net fee and commission income was by 1,37% higher than the plan for the 2015. The net losses on impairments and provisions were lower than the plan for the 2015 by 16,49%.

## 5.1 Income

The income structure during the 2014 and 2015 was as follows:

(in EUR 000)

Income	31.12.2014	31.12.2015	% of increase / decrease
<b>Interest income</b>	<b>15.536</b>	<b>13.376</b>	<b>-13,91%</b>
<b>Fee and commission income</b>	<b>5.314</b>	<b>5.418</b>	<b>1,96%</b>
<b>Net gains on financial assets held for trading</b>	<b>338</b>	<b>302</b>	<b>-10,65%</b>
- net gains on the sale of securities	10	-	-100,00%
- net gains on the change in fair value of securities	327	302	-7,65%
- net gains on the change in derivative value	1	-	-
<b>Net gains on exchange rate and effects of contracted index clause</b>	<b>15.602</b>	<b>27.937</b>	<b>79,06%</b>
- net exchange rate gains	5.940	17.255	190,49%
- net gains exchange rate gains under contracted index clause	9.662	10.682	10,55%
<b>Other operating income</b>	<b>270</b>	<b>365</b>	<b>35,18%</b>
- income from operations	32	32	0,00%
- Net gains on impairment of financial assets and credit risk-weighted off-balance sheet items	-	27	100,00%
- income from selling fixed assets	5	18	260,00%
- income from dividends	7	9	28,57%
- surpluses	2	1	-50,00%
-other income	180	77	-57,22%
- income on changes in value of liabilities	43	202	369,77%
<b>Net income on impairment of financial assets and credit risk-weighted off-balance sheet items</b>	<b>3.377</b>	<b>5.576</b>	<b>65,12%</b>
- income on reversal of impairment of balance sheet items	2.837	5.552	95,70%
- income on reversal of provisions for off-balance sheet items	540	23	-95,74%
- income on collected written-off receivables	-	1	-
<b>Total:</b>	<b>40.436</b>	<b>52.975</b>	<b>31,01%</b>

The interest income in the 2015 was lower by 13,91% than in the 2014, while the fee and commission income grew by 1,96%. The achieved interest income was lower than planned by 12,92%, while the fee and commission income was higher by 2,93% than planned for the 2015. The most significant reduction of interest income occurred in interest income under repurchase transactions with the NBS, that equalled EUR 980 thousand in the of 2014 while they totalled EUR 101 thousand in the 2015.



## 5.2 Expenses

Expenses had the following structure in the 2014 and 2015:

(in EUR 000)

Expenses	31.12.2014	31.12.2015	% of increase / decrease
<b>Interest expenses</b>	<b>5.594</b>	<b>3.681</b>	<b>-34,19%</b>
<b>Fee and commission expenses</b>	<b>631</b>	<b>685</b>	<b>8,56%</b>
<b>Net losses on financial assets held for trading</b>	<b>177</b>	<b>86</b>	<b>-51,41%</b>
- losses on the sale of securities	35	-	-100,00%
- losses on change in fair value of securities	86	86	0,00%
- losses on changes in derivative value	57	-	-100,00%
<b>Net losses on exchange rate and effects of contracted index clause</b>	<b>15.486</b>	<b>28.023</b>	<b>80,96%</b>
- net losses on exchange rate	13.310	18.050	35,61%
- fx losses - index clause	2.176	9.973	358,32%
<b>Net losses on impairment of financial assets and credit risk-weighted off-balance sheet items</b>	<b>11.333</b>	<b>11.839</b>	<b>4,46%</b>
- losses on impairment of balance sheet assets	11.300	11.810	4,51%
- losses on provisions for off-balance sheet items	23	15	-34,78%
- losses on write-off of unrecoverable receivables	10	14	40,00%
<b>Salaries, salary compensations and other personal expenses</b>	<b>4.201</b>	<b>4.332</b>	<b>3,12%</b>
<b>Depreciation costs</b>	<b>769</b>	<b>789</b>	<b>2,60%</b>
<b>Other expenses</b>	<b>4.532</b>	<b>5.084</b>	<b>12,18%</b>
<b>Operating expenses</b>	<b>4.236</b>	<b>4.593</b>	<b>8,43%</b>
- material costs	415	429	3,37%
- production services	1.229	1.458	18,63%
- tax and contribution costs	783	791	1,02%
- intangible and other operating expenses	1.809	1.915	5,86%
<b>Other operating expenses</b>	<b>296</b>	<b>491</b>	<b>65,88%</b>
- provisions for litigation	14	-	-100,00%
- other expenses	5	11	120,00%
- losses on changes in value of liabilities	215	168	-21,86%
- provisions for severance payment	62	312	403,23%
<b>Total:</b>	<b>42.724</b>	<b>54.519</b>	<b>27,61%</b>

Interest expenses were lower by 34,19% in the 2015 than in the 2014, and lower by 32,83% than the anticipated values. Salary, depreciation and other operating expenses were higher by 5,52% than in the 2014, and lower by 2,94% than planned for the 2015.

## 6. CASH FLOWS FROM OPERATING ACTIVITIES

### Cash flows from operating activities

(in EUR 000)

Item	I – XII 2014	I – XII 2015	Increase / decrease
<b>Cash inflows from operating activities</b>	<b>21.666</b>	<b>18.384</b>	<b>(3.282)</b>
Interest	16.242	13.122	(3.120)
Fees	5.267	5.442	175
Other operating income	150	33	(117)
Dividend and share in profit	7	9	2
<b>Cash outflows from operating activities</b>	<b>14.306</b>	<b>13.399</b>	<b>(907)</b>
Interest	5.289	3.866	(1.423)
Fees	562	614	52
Salaries	4.201	4.332	131
Tax and contribution	893	892	(1)
Other operating expenses	3.361	3.695	334
<b>Net cash inflows from operating activities</b>	<b>7.360</b>	<b>4.985</b>	<b>(2.375)</b>

Net cash inflows from operating activities in the 2015 amounted to EUR 4.985 thousand.

Cash inflows from operating activities in the 2015 decreased compared to the end of 2014, are reduced by EUR 3.282 thousand, while cash outflows reduced by EUR 907 thousand. The reduction of inflows from repurchase transactions with the NBS in the 2015 relative to the end of 2014 amounted to EUR 874 thousand and contributed the most to the decrease of interest inflows. The reduction was due to smaller number and volume of repurchase transactions with NBS as a consequence of decrease of REPO interest rate from 8,00% (valid interest rate on 31.01.2015) to 4,50% (valid interest rate on 31.12.2015) and greater focus on purchasing treasury bills. Inflows from subsidized interest are lower EUR 594 thousand. On the other hand, outflows under interest paid on dinar deposits reduced in the 2015 by EUR 1.394 thousand compared to the amount paid in the 2014. Outflows under interest paid on foreign currency deposits reduced in the 2015 by EUR 823 thousand and they refer to outflows under interest rate on foreign currency loans by EUR 583 thousand and outflows under interest paid on foreign currency saving deposits by EUR 224 thousand.

Net cash inflows from the operating activities cumulatively decreased in the 2015 by EUR 2.375 thousand relative to the end of 2014.

## 7. PAYMENT OPERATIONS

### 7.1. Dinar payment operations

In the 2015 total volume of domestic payment operations of business and retail clients amounted to EUR 3.696.153 thousand with the following structure:

#### Volume of domestic payment operations

(in EUR 000)

Dinar inflows and payments	01.01 – 31.12.2014	01.01 – 31.12.2015	Plan for 2015	% of the plan achieved
Dinar business inflows	1.659.893	1.803.744	1.683.320	107,15%
Dinar retail inflows	68.084	80.999	69.504	116,54%
Business payments	1.658.231	1.799.650	1.681.632	107,02%
Retail payments	7.976	11.760	8.216	143,13%
<b>Total:</b>	<b>3.394.184</b>	<b>3.696.153</b>	<b>3.442.672</b>	<b>107,36%</b>

Fee and commission income from domestic business and retail payment operations is shown in the following table:

(in EUR 000)

Fee from domestic payment operations	01.01 – 31.12.2014	01.01 – 31.12.2015	Plan for 2015	% of the plan achieved
Business clients	1.893	1.998	1.925	103,79%
Retail clients	735	796	743	107,13%
<b>Total:</b>	<b>2.628</b>	<b>2.794</b>	<b>2.668</b>	<b>104,72%</b>

The total volume of dinar payment operations of business and retail clients increased during the 2015 by 8,90% relative to the end of 2014. Income from domestic payment operation fees increased by 6,32%.

### 7.2 Foreign payment operations

In the 2015 the total volume of foreign payment operations that the Bank made was EUR 513.519 thousand.

#### Foreign payment operations

(in EUR 000)

Foreign inflows and payments	01.01 – 31.12.2014.	01.01 - 31.12.2015.	Plan for 2015	% of the plan achieved
Foreign business inflows	253.836	259.623	262.000	99,09%
Foreign retail inflows	4.909	6.346	5.000	126,93%
Foreign business payments	232.708	243.976	250.000	97,59%
Foreign retail payments	2.760	3.574	3.000	119,14%
<b>Total:</b>	<b>494.213</b>	<b>513.519</b>	<b>520.000</b>	<b>98,75%</b>

The volume of foreign payment operations, both business and retail, grew in the 2015 by 3,91 % relative to the end of 2014. There were 69.158 transactions of foreign inflows and payments, which was by 38,90% more than in the 2014.

### 7.3 Documentary operations

In the 2015 the operations in the Documentary Operations Unit were carried out in accordance with applicable procedures of the Payment Operation Department governing documentary operations.

#### Documentary operations in 2015

Item	Made from 01.01. to 31.12.2015		Plan for 2015		% of the plan accomplished for 2015	
	Number	Amount (000 EUR)	Number	Amount (000 EUR)	Number	Amount (000 EUR)
Import L/Cs	23	476	42	2.030	54,76%	23,45%
Import guarantees	136	4.800	125	5.020	108,80%	95,62%
Export L/Cs	24	9.180	43	26.451	55,81%	34,71%
Export guarantees	25	309	24	265	104,17%	116,60%

Fee and commission income from foreign payment operations and documentary business is presented in the following table:

(in EUR 000)

Fee and commission income	01.01 – 31.12.2014	01.01 – 31.12.2015	Plan for 2015	% of the plan accomplished
- for foreign payment operations	313	352	320	110,00%
- for issued guarantees and other sureties	755	773	736	105,02%
<b>Total:</b>	<b>1.068</b>	<b>1.125</b>	<b>1.056</b>	<b>106,53%</b>

Fee and commission income from foreign payment operations grew in the 2015 by 12,46% while fees for issued guarantees increased by 2,38% relative to the end of 2014.

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

During the 2015 all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS decisions.

Ratio	The values prescribed by the NBS regulations	Values as at 31.12.2015
Bank's equity	Min 10.000.000 €	26.622.723 €
Capital adequacy ratio	min 12%	15,79%
Foreign exchange risk ratio	max 20%	3,14%
Liquidity ratio	Min 1	2,94
Narrow liquidity ratio	Min 0.7	1,39
Exposure to a person / group of related persons	max 25%	16,22%
Sum of large exposures	max 400%	74,01%
Investing into non-financial persons	max 10%	0,47%
Total investments into non-financial persons and fixed assets of the Bank	max 60%	23,90%

### **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 IFIs - the European Fund for Southeast Europe (EFSE), German Development Bank (KfW), European Bank for Reconstruction and Development (EBRD), Green for Growth Fund (GGF), Netherlands Development Bank (FMO) and International Finance Corporation (IFC) the Bank is required to comply with certain financial covenants until the final repayment of the loans. As at 31.12.2015 the Bank was not complied with the following ratios:

<b>Financial institution</b>	<b>Ratio</b>	<b>Prescribed</b>	<b>Achieved</b>
EBRD	Open credit exposure ratio	25,00%	45,23%
EFSE	Exposure to persons related to the Bank	20,00%	20,79%
EFSE	Maximum exposure – single party exposure ratio	5,00%	16,22%
KfW	Single party/group exposure ratio	20,00%	22,83%
IFC	Open credit exposure ratio	25,00%	38,69%

According to the loan agreements, the Bank regularly reports to the international financial institutions of its financial ratios in accordance with its financial liabilities, with detailed elaboration on each exceeded limit. The Bank does not expect any negative reactions by the creditors regarding this matter.

## 9. HUMAN RESOURCES

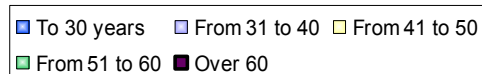
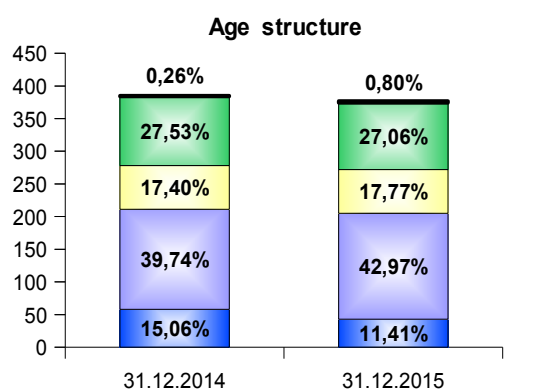
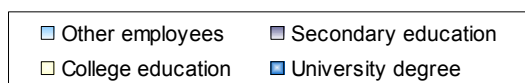
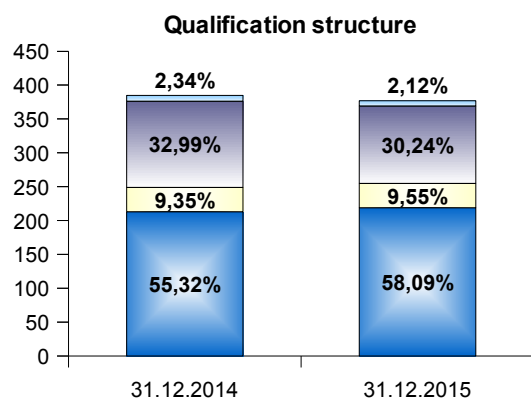
The number of employees in the Bank's head office and branches as at 31.12.2015 is presented in the following table:

Number of employees	31.12.2014	31.12.2015	Plan for 31.12.2015
Head office	181	184	181
Branches and sub-branches	204	193	225
<b>Total:</b>	<b>385</b>	<b>377</b>	<b>406</b>

During the 2015, 39 employees terminated their employment with the Bank for the following reasons:

Reason for terminating the employment	No. of employees terminating their employment in the 2014	No. of employees terminating their employment in the 2015
Temporary agreement expiry	7	9
Movement to another company	8	12
Redundancy	5	17
Retirement	3	-
Other reasons	-	1
<b>Total:</b>	<b>23</b>	<b>39</b>

The following graphs show the qualification and age structure of employees as at 31.12.2014 and 31.12.2015.



Regarding the qualification structure of employees, the Bank met anticipated share of employees with university degree, accounting for 58,09% of total. The share of staff below 40 years of age was 54,38%. Average age was 41. Expenses for salaries, salary compensation and other personal expenses in the 2015 amounted to EUR 4.332 thousand accounting for 98,81% of the total budget planned. The aggregate amount of EUR 14 thousand or 16,78% of total training budget was spent for staff training in the 2015.

## 10. INVESTMENT PLAN

During the 2015 total investments in fixed assets, investment property and intangible investments amounted to EUR 675 thousand.

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

(in EUR 000)

	Buildings	Equipment	Investment property	Intangible investments	Total	Plan for 2015
<b>Balance - 01.01.2015</b>	<b>4.307</b>	<b>871</b>	<b>1.106</b>	<b>377</b>	<b>6.661</b>	<b>6.661</b>
<b>Increase:</b>	<b>46</b>	<b>547</b>	<b>-</b>	<b>83</b>	<b>676</b>	<b>1.512</b>
Collateral enforcement	2	-	-	-	2	14
IT	-	190	-	75	264	812
Security	-	35	-	-	35	148
Other	43	322	-	9	374	538
<b>Decrease:</b>	<b>(187)</b>	<b>(387)</b>	<b>(31)</b>	<b>(227)</b>	<b>(832)</b>	<b>(800)</b>
Amortisation	(144)	(387)	(31)	(227)	(789)	(800)
Sale	(43)	-	-	-	(43)	-
Write off	-	-	-	-	-	-
<b>Balance – 31.12.2015</b>	<b>4.166</b>	<b>1.031</b>	<b>1.075</b>	<b>233</b>	<b>6.505</b>	<b>7.157</b>

The total amount of investments in the 2015 related to IT equipment and re-branding of branches/sub-branches. For rebranding of branches and Headquarter the Bank invested EUR 129 thousand, for new furniture EUR 105 thousand, and EUR 74 thousand for architectural and construction works. Investment in CISCO equipment is EUR 88 thousand, and rest of IT investment related to desktop and laptop computers, multifunctional, projector and screen. Investment in security equipment amounted to EUR 16 thousand for UPS device and EUR 14 thousand for installations and video surveillance system, fire alarm system, access control, VGA and HDMI cables for Headquarter of the Bank.

The greatest intangible investments was the 3<sup>rd</sup> instalments for SQL licence amounted to EUR 69 thousand.



## 11. PUBLIC RELATIONS AND MARKETING

The amount of EUR 216 thousand was spent for the implementation of marketing activities in the 2015, or 72,97% of total marketing budget planned for 2015. In total marketing costs advertising accounted for 66,67%, donations 31,02%, sponsorship 0,93%, and gifts 0,93%.

### Marketing costs

(in EUR 000)

Costs	Implemented from 01.01. to 31.12.2015	Plan for 2015	% of the plan
<b>ADVERTISING</b>	<b>144</b>	<b>166</b>	<b>86,75%</b>
<b>Head office</b>	<b>144</b>	<b>166</b>	<b>86,75%</b>
Expense account	24	27	88,89%
- Procurement for New Year	20	24	83,33%
- Procurement over the year	4	3	133,33%
Advertising material	6	10	60,00%
Advertising in media	5	76	6,58%
The Bank's Day	-	14	-
Other	109	40	272,50%
<b>Branches</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>DONATIONS AND SUPPORT</b>	<b>67</b>	<b>118</b>	<b>56,78%</b>
Head office	67	118	56,78%
Branches	-	-	-
<b>SPONSORSHIP</b>	<b>2</b>	<b>6</b>	<b>33,33%</b>
Head office	2	6	33,33%
Branches	-	-	-
<b>GIFTS</b>	<b>2</b>	<b>6</b>	<b>33,33%</b>
<b>TOTAL MARKETING COSTS ON THE BANK'S LEVEL</b>	<b>216</b>	<b>296</b>	<b>72,97%</b>

The branding of Headquarter and branches/sub-branches was done gradually during the 2015. Change of the Memorandum and design of all payable forms of the Bank was completed. Regarding external appearance of the Bank, we made neon signs of Halkbank above the entrance door of branches/sub-branches and ATMs. Also, marks, the name of the Bank and other stickers on the front door of branches/sub-branches are changed, as well as the accompanying advertising material. In order to familiarize clients with Halkbank, and its presence in Serbia, as well as establishing good partnerships, we launched an initiative for organizing a welcome campaign. The campaign for dinar loans at very favorable interest rate of 5,95%, the lowest so far, lasted from 23<sup>rd</sup> November to 31<sup>st</sup> December 2015. The campaign was conducted by creating posters, flyers, leasing billboards in 20 cities, 5 mega-boards in Belgrade, the animation for ATMs, a banner for the website and Facebook page was made.

## 12. QUALITY MANAGEMENT SYSTEM

During the 2015, the Bank maintained, developed and improved its quality management system.

In January quality targets were reviewed and after detailed analysis of the accomplished results, planned strategic targets and other planned activities, quality targets for 2015 were established.

In accordance with the schedule of internal controls in January and February 2015 there were quality management internal controls carried out in all Bank's organisational units. Their purpose was to identify compliance of the implemented quality management system with standard requirements, as well as the manner in which permanent improvements were made. The controls did not identify any non-compliances, and heads of the Bank's organisational units were acquainted with findings and recommendations.

During February the quality management system was reviewed in line with the relevant procedure. During such review, the Bank's management concluded that permanent improvement in work organisation, application solutions, work methodology, training of employees, monitoring events at the banking market, strengthening marketing activities etc. contributed to the quality of services in all segments of banking services.

The supervision of the quality management system by the certifying company SGS d.o.o. Belgrade (Societe Generale de Surveillance), was done on 12.03.2015 in organisational units that were subject to the supervision. During supervision (discussions, review of activities, documents and records), the SGS supervising team concluded that QMS in the Bank was complied with standard requirements and that it ensured systematic fulfilment of relevant requirements for banking services within the scope of their application, the policy and quality targets. QMS documentation was in line with tested standard requirements and ensured sufficient structure to support the QMS implementation, maintenance and permanent improvement. The SGS supervising team did not identify any non-compliances and they proposed to SGS Geneva that Halkbank retained the current certificate for design and provision of banking services ISO 9001:2008.

In April quality targets were reviewed for the first quarter of 2015, and in May and June a training of general requests of standard ISO 9001:2008 was carried out for the employees. Managers of all Bank's organisational units carried out professional training for all the employees in accordance with Training schedule for 2015.

During the 2015, the Bank implemented 238 requests of the Bank's organisational units for amendments and supplements to procedures, guidelines and work instructions. The amendments related to adjustment of documentation with the work technology and legal regulations.

### **13. REPORT ON BOARD OF DIRECTORS MEETINGS IN 2015**

During 2015 the Board of Directors held 8 meetings.

**The 1<sup>st</sup> meeting of the Board of Directors was held in Belgrade on 25.02.2015 with following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Decision on re-election and appointment of the Audit Committee;
3. Passing a decision on adopting the Annual Report on Inventory of Assets and Assets Sources of Halkbank a.d. Belgrade on 31.12.2014;
4. Passing a decision on adopting the Bank's Operating report from 1.01.2014. to 31.12.2014;
5. Passing a decision on adopting the Bank's Balance sheet, Income Statement and Statistical report for 2014;
6. Report on the liquidity ratio stress tests in the period from 16.12.2014 – 31.01.2015;
7. Report on the Bank's privatisation;
8. Reviewing the report of the Internal Audit Department for the period from 01.07. - 31.12.2014, with regard to the Annual Plan 2014 implementation and monitoring non-compliance for 2014;
9. Annual report on compliance controls in 2014 with identified and assessed major compliance risks and the Risk Management Plan;
10. Passing decisions on adopting legal agreements with a person related to the Bank;
11. Reporting on the Audit Committee Activities in the period from 01.12. - 31.12.2014;
12. Reviewing credit procedures
13. Information of the decisions passed by the Executive Board under the authorisation of the Board of Directors in the period from 16.12.2014 – 31.01.2015;
14. Miscellaneous.

**The 2<sup>nd</sup> meeting of the Board of Directors was held in Belgrade on 21.04.2015 with the following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Passing a decision on adopting the Bank's Financial Statements for 2014;
3. Report of the external auditor KPMG d.o.o. Belgrade on audit of the financial statements of the Bank for 2014;
4. Management Letter provided by the external auditor KPMG d.o.o. Belgrade
5. Report on the liquidity ratio stress tests in the period from 01.02 – 31.03.2015;
6. Passing a decision on adopting the General Business Terms;
7. Passing a decision on adopting the Annual Report on Risk Management Adequacy and Internal Control of the Bank in 2014;
8. Report on the process of internal assessment of capital adequacy for 2014;
9. Passing a decision on amending the Risk Management Strategy;
10. Passing a decision on Amending the Capital Management Strategy and Plan;
11. Passing a decision on adopting Work Plan of Department of Internal audit;

12. Passing a decision on adopting the Procedure BUR-824-101 Methodology for Department of Internal Audit;
13. Passing a decision on adopting Work Plan of Service for compliance monitoring;
14. Passing a decision on conclusion of the Intermediary Agreement with the National Bank of Serbia, in order to obtain investment funds from the credit line of the European Investment Bank;
15. Passing a decision on adopting the Rules of Procedure of the Audit Committee, the Rules of Procedure of the Credit Committee and Asset and Liability Committee;
16. Reporting on the Audit Committee Activities in the period from 01.02 – 31.03.2015;
17. Information of the decisions passed by the Executive Board under the authorisation of the Board of Directors in the period from 01.02.-31.03.2015;
18. Making decision about scheduling XXXIII Assembly of the Bank regular meeting and establishing proposals of decisions that will be discussed at the meeting;
19. Miscellaneous.

**The 3<sup>rd</sup> meeting of the Board of Directors was held in Belgrade on 26.06.2015 with the following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Operating Report for the period from 01.01 – 31.03.2015;
3. Information about Balance Sheet as at 31.5.2015;
4. Report on the liquidity ratio stress tests in the period from 01.04 – 31.05.2015;
5. Adoption of the Decision on the approval of the conclusion of a legal transaction with a person related to the Bank;
6. Adoption of the Decision on the conclusion of the legal business and increase exposure to a person related to the Bank;
7. Reporting on the Audit Committee Activities in the period from 01.04 – 30.04.2015;
8. Information of the decisions passed by the Executive Board under the authorisation of the Board of Directors in the period from 01.04 – 31.05.2015;
9. Adoption of the Decision on the dismissal and appointment of the President and members of the Audit Committee;
10. Adoption of the Decision on the dismissal and appointment of the President and members of the Executive Board;
11. Miscellaneous.

**The 4<sup>th</sup> meeting of the Board of Directors was held in Belgrade on 31.07.2015 with the following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Adopting of the Decision on granting authorization to the Executive Board to rent business premises for Headquarter in Belgrade, to make the necessary payments of rent and establish procedures for the relocation, as well as to open a branch in the ground floor of the Headquarter;
3. Adopting of the Decision on granting authorization to the Executive Board to relocate the seat of the Credit Centre with portfolio and employees from the existing location to the new visible location and to change business orientation;
4. Adopting of the Decision on granting authorization to the Executive Board to hire a law office for giving legal advices;
5. Adopting of the Decision on granting authorization to the Executive Board to hire a law office for collection of doubtful debts;
6. Information about projection of the capital of the Bank increase and the procedures for capital increase;
7. Information on the Bank's financial indicators in the period from 01.07 - 24.07.2015;
8. Passing a decision on adopting Bank's Operating Report in the period from 01.01 – 30.06.2015;
9. Reporting on the Audit Committee Activities in the period from 01.05 - 30.06.2015;
10. Information of the decisions passed by the Executive Board under the authorisation of the Board of Directors in the period from 01.06 - 15.07.2015;
11. Acquainting with the statements of the Executive Board members pursuant to article 78 of the Law on Banks;
12. Report on the liquidity ratio stress tests in the period from 01.06 - 15.07.2015;
13. Reviewing the report of the Internal Audit Department for the period from 01.01 – 30.06.2015;
14. Miscellaneous.

**The 5<sup>th</sup> meeting of the Board of Directors was held in Belgrade on 28.08.2015 with the following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Proposal to determine the date and agenda of the VIII Extraordinary Assembly of the Bank;
3. Proposal for submitting to the Assembly of the Bank on the proposal for the election of a new President of the Assembly of the Bank;
4. Proposal for the adoption of the Report on the assessment made by the independent audit firm, and in order to increase the Bank's capital, as well as the submission of the Report to the Assembly of the Bank;
5. Proposal for submitting to the Assembly of the Bank on the proposal for the emission of preferred shares;
6. Proposal for submitting to the Assembly of the Bank on the proposal for change of name and seat of Bank;
7. Proposal for submitting to the Assembly of the Bank on the amendments of Statute of the Bank;

8. Proposal for submitting to the Assembly of the Bank on amendments to the Agreement Establishing the Bank;
9. Proposal for the harmonization of acts with the provisions of the National Payment Law, which will be effective from 1<sup>st</sup> of October 2015;
10. Adopting of the Decision on granting authorization to the Executive Board that, in the process of collection of problematic clients, in response to the risk that the mortgaged asset could be sold at a much lower price, the Bank can buy the same asset for a maximum of 40% of the estimated value and under the condition that it must be under of the total amount of claims;
11. Adoption of a new organizational scheme of the Bank and the proposal on the appointment of new managers;
12. Information about the capital adequacy ratio of the Bank until the end of 2018;
13. Information about Balance Sheet and Income Statement as at 31.07.2015;
14. Report on the liquidity ratio stress tests in the period from 16.07 - 15.08.2015;
15. Information of the decisions passed by the Executive Board under the authorisation of the Board of Directors in the period from 16.07 – 15.08.2015;
16. Reporting on the Audit Committee Activities in the period from 01.07 – 30.07.2015;
17. Information on property rights of members of the Executive Board pursuant to article 78 of the Law on Banks;
18. Proposal for the opening Branch at the entrance of New Mill building and posting Halkbank's advertisements on the mentioned building;
19. Proposal on the signing the Contract for the President and member of the new formed Executive Board;
20. Miscellaneous.

**The 6<sup>th</sup> meeting of the Board of Directors was held in Istanbul on 23.09.2015 with the following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Adoption of the Recovery Plan for the Bank;
3. Consideration of consensual termination of employment with Mrs Milanka Mandić;
4. Adopting of Decision on signing the Contract with the President and members of Executive Board;
5. Miscellaneous.

**The 7<sup>th</sup> meeting of the Board of Directors was held in Belgrade on 19.10.2015 with the following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Passing a decision on adopting the Bank's Operating report from 01.01 - 30.09.2015;
3. Adopting of the Decision on granting authorization to the Executive Board to make a Decision on the sale of shares of the company Chip Card a.d. Beograd owned by the Bank;
4. Adoption of the Decision on the appointment of the President and members of the Bank's Credit Committee;
5. Adoption of the Decision on the dismissal and appointment Head of Internal Audit Department;

6. Decision on dismissal a member of the Executive Board;
7. Miscellaneous.

**The 8<sup>th</sup> meeting of the Board of Directors was held in Belgrade on 18.12.2015 with the following agenda:**

1. Adoption of the Minutes of the last meeting;
2. Adoption of the Decision on the appointment of the President and members of the Bank's Credit Committee, Asset and Liability Committee, Quality Board and Board of the Bank's liquidity;
3. Report on the liquidity ratio stress tests in the period from 16.08 - 31.10.2015;
4. Information about decisions of the Executive Board with the authorization of the Board of Directors during the period from 16.08 - 31.10.2015;
5. Reporting on the Audit Committee Activities in the period from 01.08 - 31.10.2015;
6. Adopting of the Rules and procedures for Department of Trade Securities, Halkbank a.d. Beograd;
7. Information about consensual termination of employment with Mr Dragan Jovanović;
8. Passing a decision on adopting of a new organizational scheme of the Bank;
9. Adopting of the Decision on granting authorization to the Executive Board for the sale of receivables from Bank's problematic client, company Jugoagent a.d.;
10. Information on the review of Strategies and Risk Management policies;
11. Passing a decision on adopting annual operating plan of the Service for compliance monitoring and prevention of money laundering for the 2016;
12. Passing a decision on adopting of proposed changes in lending policy guidelines;
13. Passing a decision on adopting guidelines for making the business plan of the Bank for 2016;
14. Adopting of the Decision on granting authorization to the Executive Board to open 5 new branches on the territory of the Republic of Serbia;
15. Adoption of the annual work plan of the Internal Audit Department of the Bank for 2016, with adopted changes of the plan for 2015;
16. Adoption of the Decision on approval of loans from Turkiye Halk Bankasi AS to a maximum amount of EUR 20 million;
17. Adoption of the Decision on the dismissal and appointment of the Head of Service for compliance monitoring and prevention of money laundering;
18. Adoption of Decision on granting preliminary approval to the client Aster Textill d.o.o. Niš;
19. Miscellaneous.

### III INVESTMENT FOR THE PURPOSE OF ENVIRONMENTAL PROTECTION

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

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

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

1. Board of Directors that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments thereto,
2. Executive Board that establishes and implements the E&S Risk Management Procedure,
3. Credit Committees that make decisions on loan disbursement on the basis of the E&S information available and the opinion of the Creditworthiness Appraisal Department,
4. The Creditworthiness Appraisal Department that assesses the impact of the activity and the project during the process of appraising customers' creditworthiness,
5. The Portfolio Management and Reporting Department that monitors loans by their activities, industrial sectors and E&S risk categories, by making and analysing reports that are delivered to the EBRD and IFC Environmental Department
6. A person appointed by the Bank's Executive Board as responsible for appropriate functioning and maintenance of the Social and Environmental Management System (SEMS) in the Bank.

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

If the activity which is subject to financing is included in the Exclusion List, the application will be rejected. If the activity is included in the Referral List, and it is evaluated that the project should be financed, the approval is requested from the EBRD and IFC Environmental Department. The Bank has had no application for financing activities or projects included in this risk category so far.

In the event that they are classified in high risk category A, the Environmental Impact Assessment will be provided from the client, and the person appointed by the Executive Board for the SEMS maintenance will provide a prior consent for financing the project.

When reviewing application with the decision draft for the relevant credit committee, the Creditworthiness Appraisal Department will verify classification of the activity with regard to E&S risk and the data about the E&S impact of the client and the financed activity.

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



## Environmental risk

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

Risk category	Number of clients		Amount (balance and off-balance)		Increase/decrease
	31.12.2014	31.12.2015	31.12.2014	31.12.2015	
High – Exclusion List	1	-	9	-	(9)
High – Referral List	-	-	-	-	-
High – Category A	7	7	1.913	1.554	(359)
High	260	229	57.222	51.999	(5.223)
Medium	1.122	1.074	78.176	74.186	(3.990)
Low	2.374	2.224	114.760	105.338	(9.422)
<b>Total:</b>	<b>3.764</b>	<b>3.534</b>	<b>252.080</b>	<b>233.077</b>	<b>(19.003)</b>

Investments classified in category High Risk – Exclusion List were collected pursuant to the agreed maturity, which was also prescribed by the Subscription Agreement of 14.12.2010 concluded with the EBRD and IFC. The Bank fulfilled all its obligations arising from the Subscription Agreement relating to the decrease in exposure to the activities listed in Joint IFI Exclusion List. The exposure to customers whose financed activity was classified in High Risk – Exclusion List reduced when compared to 31.12.2014 by EUR 9 thousand and amounted to only EUR 9 thousand.

Since 15.11.2010 the Bank has been applying the EBRD and IFC Exclusion List, not financing the listed activities.

## IV MATERIAL EVENTS AFTER THE END OF BUSINESS YEAR

After the end of the financial year, there were no significant events that could affect the financial position of the Bank.

## V ANTICIPATED FUTURE DEVELOPMENT

When preparing the Major Financial Indicators and Guidelines for Business Plan 2016, it was presumed increase in balance of 10% (in EUR).

It is planned to open 8 new organizational units of the Bank and consequently an increase in the number of employees. The plan is to increase loan portfolio for 18,50%, especially to retail clients. For deposits, the plan is that corporate and retail deposits grow by almost 14%, while higher growth is planned for term deposits compared to demand deposits. Another source of funding will be credit lines from international institutions. The Bank plans to continue to maintain high level of liquidity.

## **VI RESEARCH AND DEVELOPMENT ACTIVITIES**

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

The Marketing Division of Halkbank continuously develops new products and services and endeavours, on the basis of the information and conclusions acquired upon the market research and customers' needs, to develop and place at the market modified existing products, as well as completely new products and services. As a result of the research and development activities, during 2015 the Bank offered new options for cash loans, as well as conveniences for the usage of current account and its accompanying services.

## **VII INFORMATION OF PURCHASE OF OWN SHARES**

The Bank never owned its own shares and did not acquire them during 2015.

## **VIII EXISTENCE OF AFFILIATES**

As at 31 December 2015 the Bank operates in Head office and of 3 branches in Belgrade, 12 branch offices located in the towns of Jagodina, Gornji Milanovac, Čačak, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Novi Sad, and 9 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac and Čačak (2 sub-branches).

## IX RISK MANAGEMENT ADEQUACY

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

### Credit Risk

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

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

(in EUR million)

Classification categories	Classified amount 31.12.2014	% of the share in gross risk-weighted assets		Classified amount 31.12.2015	% of the share in gross risk-weighted assets		Plan for 31.12.2015		
							Classified amount	% of the share in gross risk-weighted assets	
<b>A</b>	162	54,19%	77,74%	139	49,71%	74,53%	158	54,13%	76,61%
<b>B</b>	70	23,55%		69	24,81%		66	22,48%	
<b>V</b>	7	2,30%	2,30%	7	2,44%	2,44%	7	2,43%	2,43%
<b>G</b>	10	3,36%	19,96%	10	3,41%	23,03%	7	2,24%	20,96%
<b>D</b>	49	16,60%		54	19,63%		55	18,72%	
<b>Total:</b>	<b>298</b>	<b>100,00%</b>		<b>279</b>	<b>100,00%</b>		<b>293</b>	<b>100,00%</b>	

As at 31.12.2015 the share of gross risk-weighted assets classified in A and B was 74,53%, while the share of gross risk-weighted assets classified in G and E stood at 23,03%, so that the Bank's credit risk as at 31.12.2015 was classified in a critical risk category, according to the internal procedure.

Compared to 31.12.2014 the share of receivables classified in A and B categories decreased by 3,21 p.p. while the share of receivables classified in the V category rose by 0,14 p.p. and in G and D categories increased by 3,40 p.p.

Negative macroeconomic trends, particularly slowdown of economic activities and deterioration of liquidity and profitability of enterprises, resulted in worsening of the quality of the Bank's loan portfolio.

Pursuant to the Procedure for Credit Risk Management at the portfolio level, the Bank amortised the critical level of the credit risk measured through the assets quality by establishing adequate reserves for assets to be classified in G and D categories.

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

(in EUR 000)

	31.12.2014	31.12.2015	Plan for 31.12.2015
Loan loss reserve under balance sheet assets	53.870	59.093	58.586
Loan loss reserve under off-balance sheet items	565	360	449
<b>Total:</b>	<b>54.435</b>	<b>59.453</b>	<b>59.035</b>

**Provisions according to the Bank's internal methodology**

(in EUR 000)

	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015</b>
Impairment of balance sheet assets to be classified	34.084	39.964	40.433
Provisions for losses under off-balance sheet items	25	17	73
<b>Total:</b>	<b>34.109</b>	<b>39.981</b>	<b>40.506</b>

**Required loan loss reserve**

(in EUR 000)

	<b>31.12.2014</b>	<b>31.12.2015</b>	<b>Plan for 31.12.2015</b>
Required reserve	20.684	19.889	18.528

A required loan loss reserve is the sum of positive differences between the estimated loan loss reserve and the established impairment of the balance sheet and provisions for off-balance sheet losses at the borrower's level. As at 31.12.2015 the required reserve was EUR 19.889 thousand and was a deductible from the Bank's equity. Compared to 31.12.2014 the required reserve decreased by EUR 795 thousand.

**Liquidity Risk**

**Liquidity Ratio and Narrow Liquidity Ratio in the 2015**

	<b>Liquidity Ratio</b>	<b>Narrow Liquidity Ratio</b>
31.12.15	2,49	1,39
Average	2,55	1,46
Maximum	3,59	2,14
Minimum	1,47	0,87

The Bank's liquidity measured by the Liquidity Ratio and Narrow Liquidity Ratio was in a low risk category. The average value of the Liquidity Ratio stood at 2,55%, while the average value of the Narrow Liquidity ratio was 1,46.

### Additional liquidity ratios in the 2015

	Min.	Max.	Average	Limit
Liquid assets ratio	24,41%	36,42%	28,78%	20,00%
Net loans to total deposits ratio	105,05%	129,64%	117,26%	200,00%
Customers' deposits to total deposits ratio	100,00%	100,00%	100,00%	75,00%
Foreign currency receivables against loans to foreign currency liabilities	75,32%	88,00%	79,50%	95,00%
Open foreign currency position ratio	0,60%	20,37%	7,49%	10,00%
Deposit concentration ratio	18,89%	21,51%	20,31%	30,00%

The Liquidity assets ratio is ratio of liquid assets to total assets. During the 2015, liquidity measured by Liquidity assets ratio was in low risk category with an average value of 28,78%.

### Foreign Exchange Risk

#### Foreign exchange risk ratio in the 2015

31.12.2015.	3,14%
Average	5,59%
Maximum	18,38%
Minimum	0,43%

Foreign exchange risk, measured by the foreign exchange risk ratio was mostly in a low risk category. Average value was 5,59%.

### Interest Rate Risk

The interest rate risk was monitored through the value of risk-weighted interest GAP with regard to the Bank's capital. As at 31.12.2015 the value of risk-weighted interest GAP was 1,45% of the Bank's capital, which is much below the cap of 20% prescribed by the Procedure for Interest Rate Risk Management.

## Operational risk

As at 31.12.2015 there were 66 operational risk events, and that is 27 events less than in the 2014. The largest number of operational risk events (53) related to data entry, maintenance or error due to overload. According to the criterion of the number of events of the same type, this type of event was in the high-risk category (with a net loss in the amount of EUR 573,83).

01.01.2015 – 31.12.2015	
No. of events	66
Gross loss in EUR	17.746
Net loss in EUR	603

The Bank performs risk assessment entrusting third parties on the basis of the contract conducted with these persons and there are clearly defined rights and obligations of the parties. When introducing new products, processes and systems or new business activities the Bank performs assessment and identification of operational risk.

## Exposure Risk

### The Bank's exposure to persons related to the Bank and its large exposures as at 31.12.2015

	(in EUR 000)	% of equity
Persons related to the Bank	5.534	20,79%
Large exposures	19.705	74,00%

Bank's exposure to the persons related to the Bank during 2015 was within the prescribed limit (under 25%). Exposure Halkbank a.d. Belgrade to the Turkiye Halk Bankasi was in medium risk category (16,22%).

The sum of all large exposures as at 31.12.2015 was in a low risk category (up to 200% of equity). Exposures to individual person or group were within regulatory limits.

## Loan concentration risk

	31.12.2014	31.12.2015	Prescribed value
Concentration ratio of 20 largest exposures	23,01%	23,84%	Max 26,00%

Ratios used for monitoring loan concentration risk were within the plan for 2015.

## Investment Risk

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

### Bank's investments into non-financial persons and fixed assets and investment property as at 31.12.2015

	Investments into non-financial persons	Investments into fixed assets and investment property	Total
Amount (EUR 000)	124	6.237	6.361
Share in equity	0,47%	23,43%	23,90%

## Country Risk

The Bank holds deposits in the accounts of three banks that operate in the countries classified as low risk countries by OECD methodology and the Bank's procedures, and in one bank in the country classified as a medium risk country.

### Countries in which the Bank holds deposits

Country	Risk category
Germany	Low
USA	Low
Turkey	Medium

According to the Decision of the Executive Board limit for exposure to Turkey is 100 % of Bank's capital. The total exposure to Turkey as at 31.12.2015 amounted to EUR 4.319 thousand or 16,22% of the capital and referred to the deposits given to the Halkbank.

## Risk of Changes in Prices of Securities

The total value of the securities held for trading, available for sale and held to maturity on 31.12.2015 was EUR 37.604 thousand.

### Securities portfolio

(in EUR 000)

Securities portfolio	Market value as at 31.12.2014	Market value as at 31.12.2015
Shares of banks	65	69
Shares of other enterprises	118	155
The Republic of Serbia bonds – foreign exchange savings	2.147	2.205
Municipal bonds	309	757
Treasury bills of the Republic of Serbia in foreign currency	-	29.611
<b>Total:</b>	<b>2.639</b>	<b>32.796</b>

During 2015, Securities portfolio was within the limits prescribed by the Bank's Business Policy.



## Recovery and coverage of NPLs

Gross NPLs as at 31.12.2014 and 31.12.2015 are presented in the following table:

### Gross NPLs

(in EUR 000)

Ratio	31.12.2014	31.12.2015	% of change
Gross NPLs	55.242	57.873	4,76%

Gross NPLs as at 31.12.2015 increased by EUR 2.631 thousand compared to 31.12.2014.

In the 2015 the total amount of EUR 2.319 thousand of NPLs was collected, namely EUR 2.118 thousand from business clients and EUR 200 thousand from retail clients.

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

Ratio	31.12.2014	31.12.2015	Plan for 31.12.2015
Share of gross NPLs in total gross loans	25,62%	29,98%	26,44%
Share of net NPLs in total net loans	12,42%	14,17%	11,29%

The Strategy for NPL Management and Collection defines basic ratios and their values for ensuring satisfactory coverage of NPLs, as well as the level of loan loss reserves that enables minimising negative effects of any deterioration of asset quality on the Bank's capital adequacy.

In accordance with this Strategy, the NPL coverage is ensured through the following:

- maintaining NPL coverage ratio by impairment, loan loss provisions on off-balance sheet items and required reserve, with the aim to keep it over 100%
- maintaining NPL coverage ratio by impairment of total loans above 55%.

### NPL coverage

Ratio	31.12.2014	31.12.2015	Plan for 31.12.2015
Impairment, loan loss provisions on off-balance sheet items and required reserve / NPL	99,19%	103,45%	100%
Impairment of total loans / NPL	60,70%	63,28%	55%

Compared to 31.12.2014 as at 31.12.2015, the ratio of NPL coverage by impairment, loan loss provisions on off-balance sheet items and required reserve for estimated losses, decreased by 4,26 p.p, while the ratio of NPL coverage by impairment grew by 2,58 p.p.

The Strategy for NPL Management and Collection defines the maximum annual amount of write off of receivables at the level of 3% of the gross loan portfolio. Total write-off during the 2015 was EUR 496 thousand, which accounts for 0,25% of the gross loan portfolio and was significantly lower than the value prescribed by the Strategy.

**Portfolio of acquired assets as at 31.12.2015**

Acquired assets	Acquisition date	Net carrying value		Comment
		31.12.2014	31.12.2015	
<b>Investment property</b>		<b>1.078</b>	<b>1.042</b>	
- Business premises, Čačak, Gradsko šetalište bb, area 325,07 m <sup>2</sup>	30.11.2009	295	286	Rented out
- Residential premises, Belgrade, Prote Mateje 60-62, area 377,69 m	15.04.2011	682	659	Rented out
- Business premises, Čačak, Bate Jankovića bb, area 52 m <sup>2</sup>	26.12.2013	21	20	Rented out
- Business premises, area 716 m <sup>2</sup> (two premises), Bulevar oslobođenja 17	08.08.2014	80	77	Rented out
<b>Material assets acquired upon collection of receivables</b>		<b>40</b>	<b>11</b>	
- Land 2 <sup>nd</sup> class – Šumadija-drvo, Kruševac, area 4,214 m <sup>2</sup>	28.11.2013	22		Sold to "Roma" UTR Kruševac on 22.04.2015.
- Business premises, counter hall, area 48 m <sup>2</sup> , KO Šume, Ivanjica	26.12.2014	18	11	Intended for sale

## Compliance Risk and activities on managing AML/TF risks

The compliance risk was identified and assessed in 2015 by the Compliance and AML Department through the appropriate controls prescribed by the Work Plan, in the manner as regulated by the Procedure for Managing Compliance Risk.

No. of performed controls	Findings upon controls			Recommendations	
	Complied	Acceptable subject to corrections	Non-complied	Implemented	Undergoing
15	2	13	-	13	-

In 13 reports on controls the rating was "Acceptable subject to corrections" within the agreed terms and in 2 reports the rating was "Complied" because all controlled processes were carried out in accordance with legal regulations and the Bank's procedures.

Upon summarizing the findings in the controlled operations regarding the implementation of regulations and internal documents, we may conclude that no high non-compliance risks were identified, because for all minor irregularities recommendations for their elimination were made and implemented within the defined deadlines.

For the purpose of recognising and detecting suspicious transactions, officers in the Department conducted activities relating to provision, control, analysis and reporting of cash transactions and persons participating therein in the amount of and exceeding EUR 15,000.00 in RSD equivalent on the NBS middle exchange rate, to the Administration for the Prevention of Money Laundering on a daily basis. For the purpose of minimising the AML/TF risk, employees particularly focused on monitoring, analysing and detecting suspicious transactions of customers. After transactions and related documentation were analysed, suspicious transactions were reported to the Administration.

Cash transactions of and exceeding EUR 15.000 in RSD equivalent		Suspicious transactions	
2014.	2015.	2014.	2015.
2.202	2.558	3	3

There were no non-compliances in reporting transactions and persons. The Bank managed AML/TF risks with the aim to reduce it as much as possible.

Employees in the Department observed amendments and new legal regulations and notified relevant managers on the obligation to adjust procedures and guidelines, and controlled the implementation of legal regulations with the quality management system documents. In 2015 the Department forwarded notifications about amendments and supplements in 129 legal regulations.

## X CORPORATE GOVERNANCE RULES

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

- Statute;
- Foundation Agreement;
- Corporate Governance Code;
- Business Code of Board of Directors Members and
- General Operating Conditions.

These documents are publicly available at the Bank's website: <http://www.halkbank.rs/>

In Belgrade,

\_\_\_\_\_ 2016

\_\_\_\_\_  
Person responsible for report  
preparation

\_\_\_\_\_  
Legal representative,  
President of the Executive  
Board

\_\_\_\_\_  
Vice president of the Executive  
Board