



ANNUAL OPERATING REPORT

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2021

PEOPLE  

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BEYOND ALL

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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 was founded in Türkiye in 1933 and has been building a growing network of branches since then. HALKBANK 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 operates successfully in Türkiye, Macedonia, Serbia and the Netherlands.

Halkbank a.d. Beograd 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 13<sup>th</sup> September 2005.

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

### 2. ORGANISATION OF OPERATIONS

Halkbank a.d. Beograd is 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. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 28 branches, 8 sub-branches and 1 cash desk. As at 31<sup>st</sup> December 2021, 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, Aranđelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar and Subotica and 8 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin, Tutin and Pirot. The Bank opened a new sub-branch in Pirot during 2021.

Our goal is to be a bank that encourages and finances the growth and development of the domestic economy, while at the same time representing a safe place for the savings deposits of our clients.



Halkbank's sub-branch in Pancevo

## 3. BASIC PERFORMANCE RATIOS

(in RSD thousand)

Income Statement**	31.12.2020.	31.12.2021.	Plan 2021	Plan realization
Net interest income	2,192,546	2,489,846	2,580,734	96%
Net fee and commission income	774,055	1,173,708	1,011,130	116%
Net income/(losses) on impairment of financial assets	-294,510	-165,781	-235,147	71%
Operating expenses	2,285,895	2,730,879	2,704,226	101%
Net profit before tax	529,706	946,464	711,278	133%
Profit tax	0	(58,589)	0	-
Profit from deferred taxes	0	1,519	0	-
Net profit after tax	529,706	889,394	711,278	125%
Balance Sheet	31.12.2020	31.12.2021.	Plan 2021	Plan realization
Loans to clients*	55,099,508	65,872,844	68,691,463	79%
Deposits from clients*	54,515,216	68,914,073	63,847,080	154%
Capital	12,488,546	16,127,517	16,727,582	86%
Total assets	85,015,897	99,781,574	98,768,964	107%

Key Performance Indicators (KPI)	31.12.2020	31.12.2021.	Plan 2021
Costs to Income Ratio (CIR)**	75.46%	73.76%	74.55%
Net Interest Income to OPEX	96.39%	91.17%	95.43%
Non-interest income to Operating costs Ratio	36.14%	44.40%	37.39%
Capital Adequacy Ratio (CAR)	21.18%	23.64%	21.00%
ROA	0.70%	0.97%	0.77%
ROE	4.30%	5.87%	4.87%
NIM	3.66%	3.39%	3.53%

All financial projections for 2021 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 31.12.2021 for balance sheet positions and average exchange rate RSD/EUR for 2021 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.



## II FINANCIAL POSITION AND OPERATING RESULTS

### 1. MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

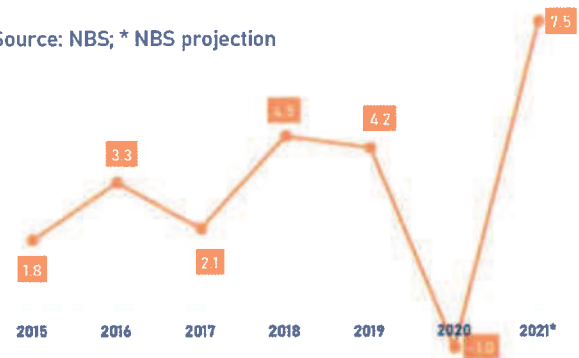
#### Economic activity

Thanks to the preserved macroeconomic and financial stability and the timely and comprehensive package of measures adopted by the NBS and the Government of the Republic of Serbia, Serbia recorded a cumulative growth of real GDP of about 6.5% in two pandemic years. The package of economic measures implemented during 2021 has directly contributed to increasing the liquidity of legal entities and facilitating business operations, especially in those sectors that are still under the stronger influence of the pandemic, such as tourism and passenger transport, while this financial help given to private individuals stimulates demand and indirectly affects economic activity. In parallel with economic measures, the alleviation of restrictive health measures has resulted in a more dynamic recovery of certain activities of the service sector that are most affected by the pandemic. In addition to these temporary factors that have positively contributed to economic activity, there have been structural improvements. They are primarily reflected in the activation of new and expansion of existing export-competitive production capacities, as well as in the further development of road and railway infrastructure, which permanently increases the potential of the domestic economy. Structural improvements in the economy supported by economic policy measures were materialized in a strong increase in GDP, whose expected growth in 2021, according to the Republic Bureau of Statistics, is 7.5%. According to the RBS, GDP growth in the first quarter amounted to 1.8% year on year, which means that the domestic economy already exceeded the level of economic activity from the pre-pandemic period in the first quarter. GDP growth in this period was driven by construction and industrial production, as well as net exports, which was the main generator of economic growth. Good economic trends continued in the second quarter of 2021 with a year-on-year increase in GDP of 13.7%, in the third with a

growth rate of 7%, and in the fourth with an estimated year-on-year growth of 6%.

#### Real GDP growth rate (%)

Source: NBS; \* NBS projection



#### Inflation

From the middle of 2021, inflation was at a slightly higher level compared to the previous period. This trend in inflation was influenced by temporary factors, primarily the rise in world prices of oil and primary agricultural products, delays in global supply chains, but also its low base value. In addition to the increase in the prices of oil and vegetable derivatives, the increase in the prices of meat, electricity, tobacco, oil, utilities, alcoholic beverages and restaurant and hotel services also had a significant impact on the growth of inflation in this period. The temporality of this increase in inflation is indicated by the inflation expectations of the financial sector and the economy, which are around the central level of the target, but also the movement of core inflation, which was significantly lower and amounted to 2.6%.

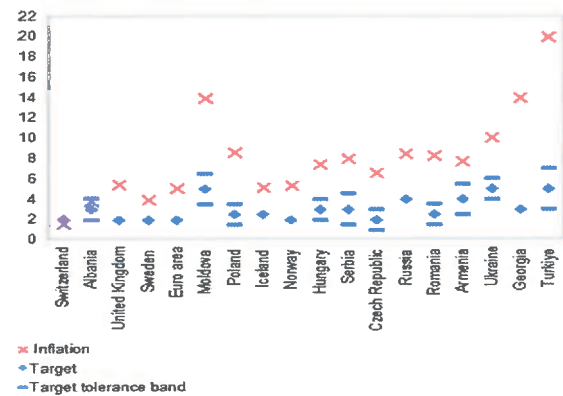
Average inflation in 2021 was 4%, while year-on-year inflation in December was 7.9%. The highest monthly growth of 1.1% was recorded in April. (August, October and November 0.9%). Base inflation in December 2021 was significantly lower than total inflation and it

was amounted to 3.5%, indicating temporary inflationary pressures.

According to the NBS projection, inflation will remain above the upper limit of the target for some time, and with the weakening of temporary factors, inflation is expected to gradually decrease in the second quarter of 2022, enter the target during the third quarter and stabilize around the central target at the end of 2022.

Inflation expectations for the next two to three years range from 3% to 4%.

Inflation and target by country in December 2021. (p.a., in %)



Source: NBS

### Consumer prices trends in Serbia during 2021



Source: Statistical Office of the Republic of Serbia

### Labor market

As a result of returning to the path of strong economic growth and general economic stability, and supported by the process of population vaccination and economic stability, 2021 is characterized by better-than-expected

developments in the labor market, especially in wages. The success of the economic package of measures was verified by the absence of significant negative effects of the pandemic on the labor market, jobs and wages were significantly preserved, and the scenario of a significant increase in unemployment was avoided.

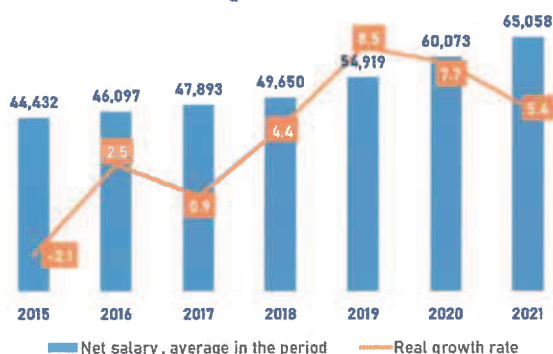
According to the Labor Force Survey, after the unemployment rate of 12.8% in the first quarter, during the second quarter of 2021, the unemployment rate decreased to 11.1%. However, compared to the same period last year, it was higher by 3.2 percentage points. This increase in the unemployment rate was, above all, a consequence of the circumstances present in 2020. Namely, due to the measures against the pandemic, a good part of the population was prevented from working or they gave up looking for work. Thus, that part of the population is classified in the contingent of the population outside the labor force, so they were not considered unemployed. As a consequence, the out-of-labor force rate in the second quarter of 2020 was at a very high level of 49.8%, while the unemployment rate was a low 7.9%. In the second quarter of 2021, the rate of the population outside the labor force decreased to 45.7%, which is an indicator of recovery in the labor market. A markedly positive trend was recorded among the young population, where the employment rate increased by 7.8 percentage points to 25.9%.

The unemployment rate in the third quarter of 2021 was 10.5%, or 0.6 pp. lower than in the previous quarter. The employment rate in Q3 2021 reached the level of 50%, which is the highest level since 2010.

The average net salary continued to grow and in 2021 (January-Nov) it amounted to RSD 65,058 (553 euros), achieving a real increase of 5.4% compared to the previous year. More than half of the total wage growth in the first half of the year was determined by wage growth in the manufacturing industry, trade and healthcare. Faster wage growth was achieved in the private sector compared to the public sector.



## Movement of average monthly net salary and real growth rates



Source: Ministry of Finance

## Exchange rate

Due to good macroeconomic trends and economic growth above expectations, 2021 will be characterized by stable trends in the foreign exchange market. As a result of maintaining stability in the foreign exchange market, the confidence of international investors has been restored and their interest in investing in dinar government bonds has increased, especially after their inclusion in the J.P. Morgan index. Despite the appreciation pressures caused by the inflow of capital, thanks to the interventions of the NBS on the foreign exchange market, the stability of the dinar against the euro was maintained during 2021 as well. Hence, its value was almost unchanged over the year. On the other hand, the dinar weakened against the dollar in 2021 by 8.64%.

## FX trend during 2021



Source: NBS

## Interest rates

During 2021, the NBS Executive Board did not change the value of the reference interest rate. The value of the reference interest rate was kept at the level of 1.00%.

The monetary expansion of the NBS, as well as other central banks, meant that interest rates in Serbia were low and stable. From October 2021, the NBS reduces the expansion of monetary policy without changing the basic interest rates, having in mind the increased cost pressures in the international and domestic environment and the necessity of influencing inflation expectations.

Interest rates on government securities are around their minimums (3.24% for the securities with the maturity of 12 years).

Interest rates on new dinar loans have dropped significantly since the beginning of the cycle of reducing the reference interest rate, and in November 2021 they amounted to 3% on corporate loans and 8.3% on retail loans.

Interest rates on euro-indexed loans fell due to a sharp fall in the risk premium, the country's credit rating improved and the ECB's monetary policy eased.

## Fluctuation of the interest rates on the financial markets



## Credit rating

**Standard and Poor's** – In June 2021, the rating agency Standard and Poor's reaffirmed Serbia's credit rating at BB+ with a stable outlook for its further increase. In December 2021, the mentioned agency increased Serbia's prospects for obtaining an investment rating from stable to positive. This decision was influenced by the strong economic growth of Serbia and the high degree of resilience of the economy to the shock caused by the pandemic. In its report, the agency pointed out that thanks to the adequate economic policy pursued in Serbia, economic growth will amount to 7%. The agency points out favorable growth prospects in the medium term, high inflow of foreign direct investments, record level of foreign exchange reserves and expected reduction of fiscal deficit. It is estimated that the credit rating is supported by a credible monetary policy and a moderate level of public debt. The stability of the banking sector is also emphasized, which is reflected in the high capital adequacy and low level of problematic loans.

**Fitch Ratings** – In September 2021, Fitch Ratings reaffirmed Serbia's credit rating at BB+ with a stable outlook for further improvement. Good economic results of Serbia achieved in the period before and maintained during the pandemic, as well as successfully implemented fiscal consolidation measures, have resulted in achieving stable and sustainable public finances creating conditions for economic recovery and long-term sustainable macroeconomic development.

**Moody's** – In March 2021, Moody's upgraded Serbia's credit rating from Ba3 to Ba2 with a stable outlook for further improvement. Factors that contributed to the improvement of the credit rating are the resistance of the Serbian economy to the consequences caused by the coronavirus pandemic, stable level of medium-term growth, as well as expectations that indicators of fiscal sustainability in Serbia will continue to be above the average of Ba credit rating countries.

**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	Current Outlook
Germany	Aaa	Aaa	Aaa	Aaa	Aaa	Stable
France	Aa2	Aa2	Aa2	Aa2	Aa2	Stable
Bulgaria	Baa2	Baa2	Baa2	Baa1	Baa1	Stable
Romania	Baa3	Baa3	Baa3	Baa3	Baa3	Stable
Croatia	Ba2	Ba2	Ba2	Ba1	Ba1	Stable
Serbia	Ba3	Ba3	Ba3	Ba3	Ba2	Stable
Montenegro	B1	B1	B1	B1	B1	Stable
Turkiye	Ba1	Ba3	B1	B2	B2	Negative
Bosnia and Herzegovina	B3	B3	B3	B3	B3	Stable

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

### Banking sector

At the end of the third quarter of 2021, 24 banks with an organizational network of 1,548 business units operated on the Serbian banking market. The total number of employees in the banking sector is 22,503.

The total balance amount of the Serbian banking sector amounted to RSD 4,854 billion, which is an increase of 5.49% for the first nine months of 2021. In the same period, the capital of banks increased by 0.58% and amounted to 721 billion RSD.

The first 10 banks had a share of 83.1% in the total balance sheet, 83.3% in deposits and 81.9% in loans. As in the previous period, Banca Intesa is the leading bank in terms of total balance sheet and deposits with a share in the total balance sheet of the banking sector of 15.69% and a share in total deposits of 15.55%. Unicredit Bank also has a market share in total assets of over 10%, as well as OTP Bank, which recorded a significant increase in total assets and market share in total assets (13.19%) due to the merger with Vojvodjanska Bank. Halkbank a.d. Belgrade in the first nine months of 2021, recorded an increase in market share in all key balance sheet positions. The participation of Halkbank a.d. Belgrade in the total balance sheet assets of the banking sector is 2.01% and the Bank is in the 14th place by the size of balance sheet assets. According to the amount

of the deposit, the Bank is on the 13th place in the banking sector with a share of 2.08%, while in terms of the loans balance it is in the 14th place with a share of 2.26%.

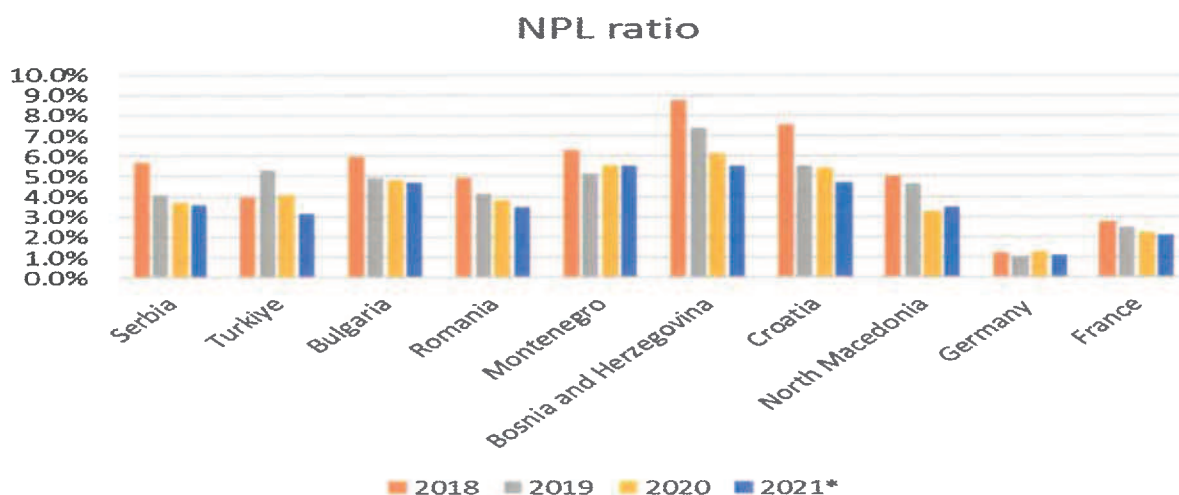
As of the third quarter of 2021, the banking sector achieved a pre-tax result of RSD 40.7 billion, which is -6.3% less than in the same period last year. 20 banks operated with a positive result with a total profit of RSD 41.4 billion, while 4 banks operated with a loss in the total amount of RSD 711 billion. Lower profits compared to the same period last year were caused by the fall in reference interest rates and lower other operating income of some banks. According to the realized profit during the first three quarters of 2021 of RSD 740,172 thousand, Halkbank a.d. Belgrade took 12th place.

The reduced profitability of the banking sector during the first nine months of 2021 was accompanied by a decrease in profitability indicators compared to the same period last year. At the end of the period, return on equity (ROE) was 7.54% while return on assets (ROA) was 1.14%.

Non-performing loans (NPL ratio) amounted to 3.4% at the end of November 2021, while the coverage of these placements by the loan loss provisions was 57.9%. At the end of 2021 year, HalkBank a.d. Belgrade had a share of NPLs in total loans of 2.25% and a ratio of coverage of

problematic loans by the provisions related to problematic loans of 53.93%. Despite the corona virus pandemic, almost all countries in

the region in 2021 recorded a decline in the share of problem loans in total loans.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 22.2% at the end of the third quarter,

which is significantly above the prescribed minimum of 8%.

## 2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The Bank assesses its goals through the realization of the goals set in the Business Policy for 2021. The goals were realized through the activities listed below.

1. In the Operating Policy for 2021, the Bank has planned expansion of branch network by opening 2 new branches/sub-branches. In May 2021, the Bank opened a new sub-branch in Pirot, whilst the opening of the branch in Presevo was postponed for the first quarter of 2022.

2. Faster growth of key balance sheet items than expected for the banking sector is planned in order to increase market share in the sector. According to the data for the end of September 2021, the Bank increased its market share in the total assets of the banking sector compared to the end of 2020 from 1.92% to 2.08%, while the share in total loans increased from 2.11% to 2.26%.

3. In 2021, the Bank achieved positive financial result after tax in the amount of 889,394 thousand RSD which represents a growth of 67.90% compared to the same period last year. Realized values regarding this goal are shown in the following table:

Indicators	(in RSD thousand)		
	31.12.2021	Plan 2021	Plan realization
Net interest income	2,489,846	2,580,734	96.48%
Net fee income	1,173,708	1,011,130	116.08%
Operating costs	2,730,879	2,704,226	100.99%
Profit	889,394	711,278	125.04%

4. In May of 2021 the Bank had recapitalization in amount of EUR 30 million, required for financing planned investments in new Headquarters

building, as well as implementation of new core banking system.

5. In February 2021, the Bank started a project to implement a new "Core Banking" system called Halk Fusion. It is estimated that the new software solution for the "Core Banking" system will be applied in the Bank's operations in March 2023, while the completion of the project is planned for May of the same year, so the realization of significant project phases is planned for 2022. The process of negotiation and

selection of suppliers has been completed. The project planning phases have been completed, as well as the GAP analysis. The next step is to prepare data for migration, development activities as well as preparation for testing. In addition, regardless of the project, a new modern application for foreign exchange operations was launched in July this year.

### 3. BALANCE SHEET

#### 3.1 Assets

As of December 31st 2021, the Bank's total assets amounted to 99,781,574 thousand RSD and accounted increase of 17.37% compared to the end of 2020, or by 14,765,677 thousand RSD.

The main drivers of this growth were new placements to clients, as well as additional investments in securities. The growth of total loans in the observed period amounted to RSD 10,773,336 thousand (19.55%), while the growth of financial assets amounted to RSD 3,160,777 thousand (28.42%).

(in RSD thousand)

ASSETS	31.12.2020	31.12.2021.	Plan 2021	% of change
Cash, cash equivalents and assets held with the central bank	13,707,004	12,689,315	10,065,028	-7.42%
Financial assets*	11,120,811	14,281,588	12,934,031	28.42%
Loans to banks and other financial organizations**	2,398,662	3,822,319	1,763,732	59.35%
Loans to clients**	55,099,508	65,872,844	68,691,463	19.55%
Intangible assets, property, plant and equipment and investment property	1,822,164	2,324,973	4,726,800	27.59%
Other assets***	867,748	790,535	587,911	-8.90%
<b>Total assets</b>	<b>85,015,897</b>	<b>99,781,574</b>	<b>98,768,964</b>	<b>17.37%</b>

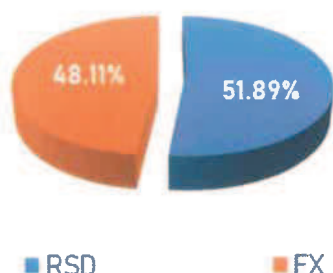
\* The position "Financial assets" consists of pledged financial assets, receivables from derivatives and securities from official Balance sheet.

\*\* 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.

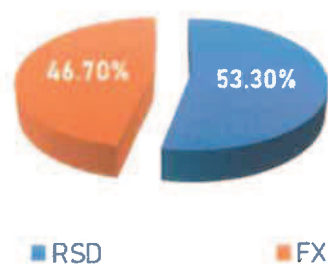
\*\*\* The position „Other assets" includes position „Deferred tax assets" from official Balance sheet form.

The following graphs present the currency structure of assets as at 31.12.2020 and 31.12.2021.

**Structure of Assets  
31.12.2020**



**Structure of Assets  
31.12.2021**



### 3.1.1 Loans to clients

In accordance with the strategy of Halkbank a.d. Beograd, 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.

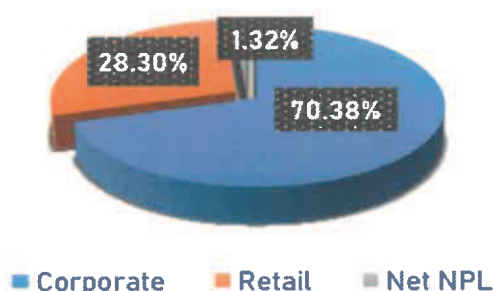
The structure of position Loans to clients as of December 31<sup>st</sup> 2020 and December 31<sup>st</sup> 2021 is given in the following table:

	(in RSD thousand)			
	31.12.2020	31.12.2021.	Plan 2021	% of change
Loans to clients - net	55,099,508	65,872,844	68,691,463	19.55%
Corporate clients without NPL	38,781,185	46,736,357	47,620,751	20.51%
Retail clients without NPL	15,591,032	18,449,572	19,988,957	18.33%
NPL (net)*	727,291	686,915	1,081,755	-5.55%

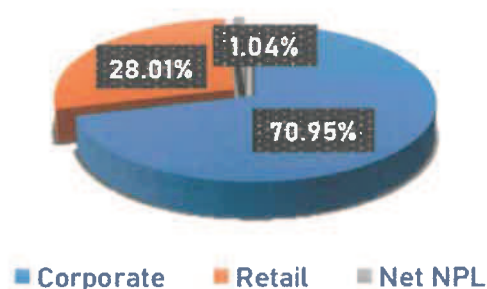
\* NPL position refers to net receivables from problematic customers, without receivables for interest and fee

During 2021, the Bank's net loan portfolio increased by 19.55%, ie RSD 10,773,336 thousand. In addition to the growth of the loan portfolio, compared to the end of 2020, the net amount of non-performing loans decreased by 5.55%.

**31.12.2020**

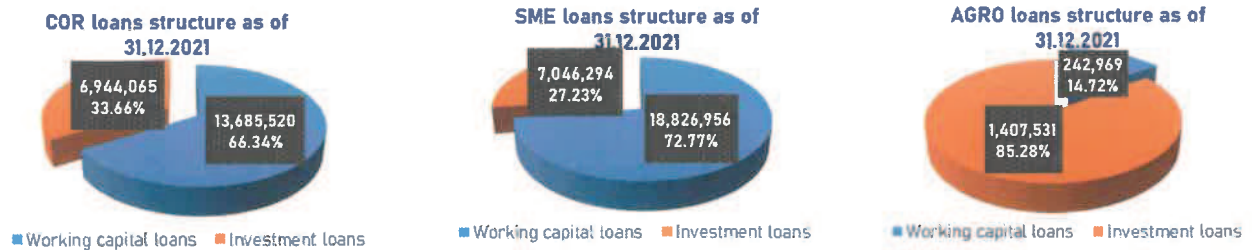


**31.12.2021**



## Gross loans – Corporate

Gross corporate loans, including gross NPL, as of December 31st 2021 amounted to 48,153,335 thousand RSD, with growth of 19.39% comparing to the end of 2020. In the following graphs, structure of these loans as of 31.12.2021 is presented:



In 2021, despite the COVID-19 virus pandemic, the Bank managed to achieve good results and create new sales channels in extremely fierce competition on the domestic banking market.

The most important activities of Corporate and SME Marketing Division in 2021 were as follows:

- Bank realized EUR 246.2 million in Corporate, SME and Agro segments through Guarantee scheme for supporting of the economy, cross-border loans, standard loan products, as well as certain programs and actions. The focus was on the Guarantee scheme for supporting of the economy, FRK investment loans campaign in cooperation with the National Bank of Serbia, new credit line in cooperation with SEF foundation, Support program for SMEs, as well as lending to Agro clients.
- Bank has continued with undertaking of all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic. The Bank implemented NBS prescription in which all banks have an obligation to approve relief in repayment to debtors. According to the decision HalkBank a.d Beograd maintained the same approach in cooperation with clients and continued to constantly contact clients from the Bank's portfolio, in order to assess the effects and consequences of the pandemic on clients' operations, for joint activities that will prevent negative consequences. Clients were informed about all measures of the State, as well as the announced

financial incentives that will be realized through the banking sector. Branches are monitored intensively on a daily basis with clear instructions on measures to be taken on the basis of new regulations and state regulations.

- In 2021, Bank participated in the Guarantee scheme for supporting of the economy. Bank realized total of EUR 37.2 million through 468 loans. The Government of the Republic of Serbia has adopted a package of economic measures aimed at reducing the negative effects caused by the Covid-19 pandemic. One of the measures is the Guarantee scheme for supporting the economy in the conditions of Covid-19 crisis for loans for maintaining liquidity and working capital through commercial banks operating in the Republic of Serbia. The total value of the funds provided for this measure is EUR 2.5 billion. We believe that participating in the implementation of the said program would contribute to the preservation and expansion of the portfolio of credit clients, it would enable the placement of funds with first class collateral, as well as provide support to clients in maintaining liquidity with funds with favorable interest rate.

The basic conditions of Guarantee Scheme are as follows:

- Guarantee from Republic of Serbia covers up to 80% of the principal of each individual loan, while the maximum amount of the guarantee at the portfolio level is 24%
- Eligible clients: Micro, Small and Medium Enterprises
- Purpose of loans: for liquidity and working capital, excluding refinancing and early repayment in other banks.
- Maximum amount of loan is up to 25% of client's revenue, not more than EUR 3 million per individual client, at the banking sector level
- Maximum maturity of loan is up to 36 months, including 9-12 months grace period, with maximum yearly interest rate for EUR loans of 3M EURIBOR + 3.0% and for RSD loans 1M BELIBOR + 2.5%.
- In May 2021, the Bank concluded the Agreement on the guarantee of the Republic of Serbia for lending to the economy due to the prolonged negative impact of the COVID-19 pandemic caused by the SARS-CoV-2 virus, with the aim of increasing the liquidity of legal entities. The total value of the funds foreseen for this measure is EUR 500 million and Bank has realized total of EUR 3.1 million through 28 loans. Participation in the implementation of Guarantee scheme II should contribute to the preservation and expansion of the portfolio of credit clients, enable the placement of funds with first-class collateral, as well as provide support to clients in maintaining liquidity with funds with a favorable interest rate.

The basic conditions of the Guarantee scheme II are the following:

- Guarantee from Republic of Serbia covers up to 80% of the principal of each individual loan, while the maximum amount of the guarantee at the portfolio level is 25,6%
- Eligible clients: Micro, Small and Medium Enterprises
- Purpose of loans: for liquidity and working capital, refinancing of existing loans for liquidity and working capital, as well as refinancing of investment loans. Loans cannot be used to refinance loans with other banks;
- Maximum amount of loan is up to 30% of client's revenue in 2019, not more than EUR 3 million per individual client;
- Maximum maturity of loan is up to 60 months, including 18-24 months grace period, with maximum yearly interest rate for EUR loans of 3M EURIBOR + 4.0% and for RSD loans 1M BELIBOR + 2.75%.
- In the second quarter of 2021 the Bank signed contract with Ministry of agriculture for subsidized loans for working capital and agro equipment. This is the fourth consecutive year of the Bank's participation in the program through which significant results have been achieved through lending to Agro clients.
- Cooperation with existing clients has been intensified with the continuous development of long-term relationships. In 2021, the bank managed to increase the total number of business clients by 8%.



## Gross loans - Retail

Gross retail loans, including gross NPL, as of December 31st 2021 amounted to 18,734,388 thousand RSD with the following structure:

Loan type	(in RSD thousand)		
	31.12.2020	31.12.2021.	% of change
Cash loans	8,626,404	9,465,804	9.73%
Housing loans	6,221,866	8,189,349	31.62%
Consumer loans	679,921	642,873	-5.45%
Allowed overdraft	174,220	198,786	14.10%
Other	154,196	237,576	54.07%
<b>Total</b>	<b>15,856,607</b>	<b>18,734,388</b>	<b>18.15%</b>

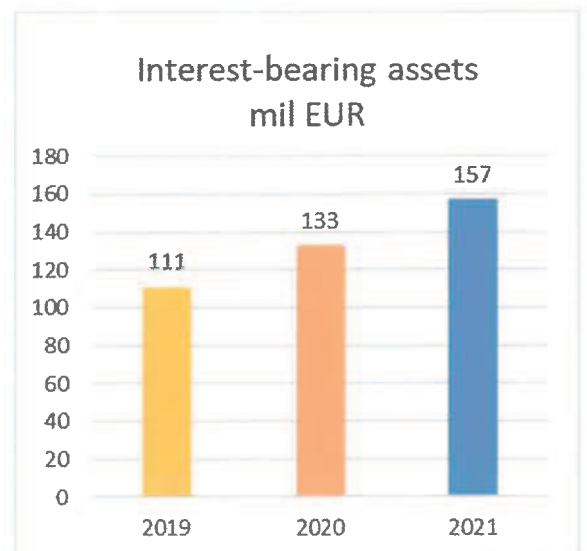
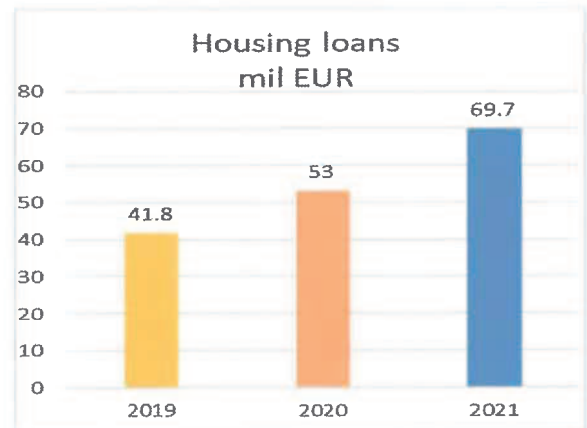
Retail Marketing and ADC Division realized following activities during 2021 with an aim to launch new products and services, to increase portfolio and profitability:

- Interest-bearing assets increased by 18%, from EUR 133 million to EUR 157 million. The most noticeable growth was achieved for the second year in a row thanks to the growth of the housing loan portfolio, where growth was 31.62% and EUR 16.7 million, respectively, with continued growth of the portfolio and cash loans, which increased by EUR 7 million and 9.73%. In parallel with the further growth of the portfolio, there was an increase in interest income, so that during 2021 there was an increase of 11%.
- The "2 in 1" campaign was completed, in which cash credit and credit card were offered as related products in order to increase the number of issued credit cards as a relatively new product in the Bank's service. We have continued with bundle offers - the goal is to increase the number of products per client, further linking clients to the Bank and increase profitability. The focus remains on clients employed by good employers - budget institutions and public companies and pensioners. We insist on further synergy between the Bank's segments, so that we continue to actively offer products and services to the population of our SME and CORPORATE clients.
- During 2021, we had 2 pre-approved credit card campaigns for the best customers. One at the beginning of the year and the other at the end of the year, which was additionally supported in the following way - together with Mastercard, the Bank has created a "Mastercard / HALKBANK acquisition campaign" in which the Bank supports the sale of debit and credit cards from the Mastercard system. The cards covered by the campaign are - Mastercard Debit Gold (within the Gold current account package), Mastercard HALKTag and Mastercard Credit World. The goals are the acquisition of new clients and also up-selling and cross-selling for existing clients. Retail CRM achieved a result of 108% while cashiers achieved 81% fulfillment of the set campaign goal. At the end of 2021, the Bank had over 4,100 credit cards issued and over 3,200 Mastercard HALKTag debit cards issued.
- Application of the change of the Tariff of fees for the provision of services to individuals from 12/07/2021. The change includes paper and electronic orders, domestic and foreign payment transactions, with the favoring of electronic orders, which is in line with the plans for further digitalization of the Bank. This enabled the Bank to further increase non-interest income from retail clients.
- In addition, in order to further digitalize the Bank, in order to promote special products and services, Incentive campaigns were created - it is possible to open an Account

through digital channels - free of charge for monthly maintenance for 4 months for Silver current account package and Mastercard HALKTag debit card - no monthly maintenance fee for a period of 4 months with the Silver current account package or 6 months with the Gold current account package.

- Also, a special offer has continued in 2021 year that aims to support clients during the holiday season - a comprehensive offer is focused on the needs of clients and their holidays. An offer of tourist loans has been created. With special emphasis if the destination is Türkiye, a special cooperation has been established with Turkish Airlines and with possibility to withdraw funds with debit cards free of charge at ATMs in Türkiye for individuals.
- The action of closing inactive (dormant) accounts (accounts that have no activity for more than 12 months) was realized, with the aim of settling the client base, as well as in order to reduce costs that the bank has on inactive client accounts (sending notifications in accordance with legal regulations, etc.).
- During 2021, Halkbank a.d. Belgrade continued with the further expansion of the ATM network, so that on 31.12.2021 there were a total of 91 ATMs. Also, continuous cooperation with the bank's clients in order to expand the network of POS terminals resulted in a total of 3,325 devices at the end of the fourth quarter. The bank's orientation towards further digitalization of business

processes, improvement and expansion of services it offers to its clients can be seen through the total number of debit cards of 113,165, credit 4,100, Ebanking users: 28,359 individuals.



### 3.2 Equity and Liabilities

Total liabilities as of December 31<sup>st</sup> 2021 amounted to 99,781,574 thousand RSD with the following structure:

LIABILITIES	(in RSD thousand)			
	31.12.2020	31.12.2021.	Plan 2021	% of change
Deposits from banks and other financial organizations**	7,487,610	4,604,184	8,465,911	-38.51%
Deposits from other clients**	54,515,216	68,914,073	63,847,080	26.41%
Funds borrowed***	8,159,379	6,889,604	8,230,747	-15.56%
Other liabilities****	2,365,146	3,246,196	1,497,643	37.25%
<b>Total liabilities</b>	<b>72,527,351</b>	<b>83,654,057</b>	<b>82,041,382</b>	<b>15.34%</b>
Share capital	8,972,603	12,499,049	12,500,271	39.30%
Reserves	529,706*	889,394	711,372	67.90%
Current period profit	682,330*	542	0	-99.92%
Undistributed profit from previous years	2,303,907	2,738,532	3,515,940	18.86%
<b>Total capital</b>	<b>12,488,546</b>	<b>16,127,517</b>	<b>16,727,582</b>	<b>29.14%</b>
<b>Total liabilities</b>	<b>85,015,897</b>	<b>99,781,574</b>	<b>98,768,964</b>	<b>17.37%</b>

\* By the decision of the Bank's Assembly of April 27, 2021. The Bank's profit realized in 2020, as well as the amount of retained earnings from previous years, were allocated to the position of profit reserves.

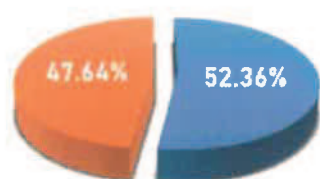
\*\* The positions "Deposits from the clients" and "Deposits from banks and other financial organizations" differ from the positions "Deposits and other financial liabilities to other customers" and "Deposits and other liabilities to banks, other financial organizations and the central bank" presented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

\*\*\* The item "Funds borrowed" presented in the overview is shown without accrued interest liabilities and accrued expenses for liabilities stated at amortized cost using the effective interest rate which is part of the total amount of loans received from customers and banks presented in the Bank's financial statements. , which are presented in the overview under the item "Other liabilities".

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

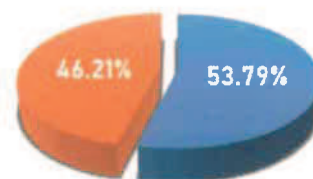
The following graphs present the currency structure of liabilities as at 31.12.2020 and 31.12.2021:

**Valutna struktura pasive  
31.12.2020.**



■ Dinarska      ■ Devizna

**Valutna struktura pasive  
31.12.2021.**



■ Dinarska      ■ Devizna

### 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 31<sup>st</sup> 2020 and December 31<sup>st</sup> 2021 is presented in the following table:

(in RSD thousand)			
Deposits from banks and other financial organizations	31.12.2020	31.12.2021	% of change
Transaction deposits	123,155	74,295	-39.67%
Other deposits	7,364,455	4,529,889	-38.49%
<b>Total</b>	<b>7,487,610</b>	<b>4,604,184</b>	<b>-38.51%</b>

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 31<sup>st</sup> 2020 and December 31<sup>st</sup> 2021 is presented in the following tables and graphs:

(in RSD thousand)				
Deposits from clients	31.12.2020	31.12.2021	Plan 2021	% of change
Transaction deposits	24,653,761	32,501,479	28,219,704	31.83%
Other deposits	29,861,455	36,412,594	35,627,376	21.94%
<b>Total</b>	<b>54,515,216</b>	<b>68,914,073</b>	<b>63,847,080</b>	<b>26.41%</b>

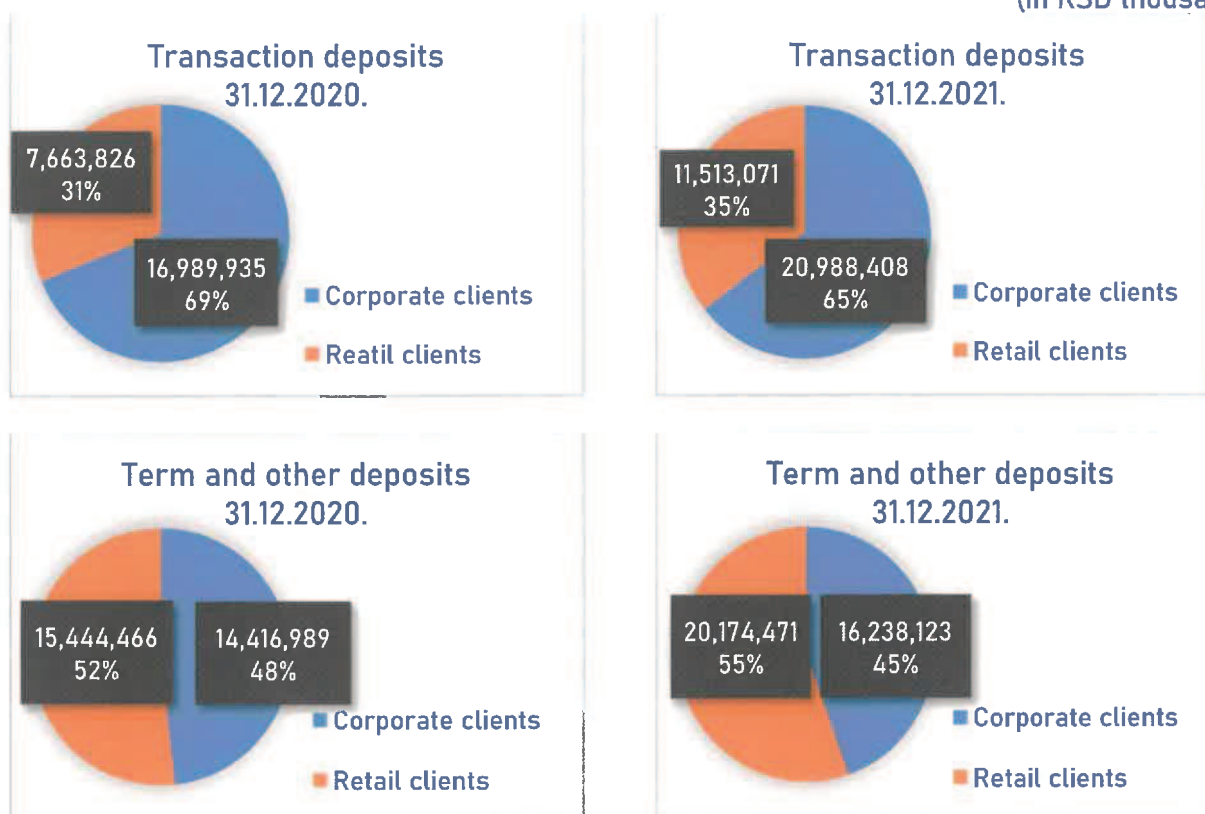
Total increase of deposits from clients in 2021 amounted to 26.41%.

(in RSD thousand)				
Deposits from clients	31.12.2020	31.12.2021	Plan 2021	% of change
Corporate clients	31,406,924	37,226,531	36,215,287	18.53%
Retail clients	23,108,292	31,687,542	27,631,794	37.13%
<b>Total</b>	<b>54,515,216</b>	<b>68,914,073</b>	<b>63,847,080</b>	<b>26.41%</b>

By constant monitoring of market trends, individual and proactive approach to clients, the Bank increased the level of deposits from corporate clients by 18.53%, and the level of deposits from retail clients by 37.13%.

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

(in RSD thousand)



#### Funds borrowed

(in RSD thousand)

Borrowed loans in foreign currency	31.12.2020	31.12.2021.	% of change
- EIB	5,303,581	4,436,438	-16.35%
- Demir-Halk Bank (Nederland) N.V.	999,432	999,448	0.00%
- EAR long-term revolving line	837,726	855,461	2.12%
- European Fund for Southeast Europe	503,915	167,975	-66.67%
- GGF	484,154	414,996	-14.28%
- Government of Republic of Italy	30,571	15,286	-50.00%
<b>Total</b>	<b>8,159,379</b>	<b>6,889,604</b>	<b>-15.56%</b>

During the 2021, the Bank paid the principle of long-term loans to IFIs on a regular basis in the amount of EUR 21,527 thousand. In the same period, the Bank withdrew EUR 10,727 thousand of IFI's funds.

### 3.2.3 Equity

The capital of the Bank as of December 31<sup>st</sup> 2021 amounted to RSD 16,127,517 thousand and comprised of the following:

Equity	(in RSD thousand)		
	31.12.2020	31.12.2021.	% of change
Share capital – ordinary shares	5,658,940	7,338,200	29.67%
Share capital – preference cumulative shares	1,340	1,340	0.00%
Share capital – preference non-cumulative shares	600,000	600,000	0.00%
Share premium	2,712,323	4,559,509	68.10%
Revaluation reserves**	577,380	-200,031	-134.64%
Reserves from profit	1,726,527	2,938,563	70.20%
Undistributed profit from previous years	682,330*	542	-99.92%
Profit of the current year	529,706*	889,394	67.90%
<b>Total</b>	<b>12,488,546</b>	<b>16,127,517</b>	<b>29.14%</b>

*\*By the decision of the Bank's Shareholders Assembly dated 27.04.2021, the Bank's profit from 2020, as well as remaining undistributed profit from previous years, was allocated to position reserves from profit.*

*\*\* The decrease in revaluation reserves is a consequence of the increase in interest rates on the debt securities market, 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 information about the number of shareholders and the basic information of shares is presented in the following table:

Information on shares	31.12.2020	31.12.2021.
Number of shareholders	1	1
Number of shares	626,028	793,954
Nominal value per share in RSD	10,000	10,000
Net book value per share in RSD	19,948.86	20,312.91

#### 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 2021, there is a growth rate of 17.86% compared to the end of 2020. The structure of off-balance sheet items as of December 31<sup>st</sup> 2020 and December 31<sup>st</sup> 2021 is presented in the following table:

(in RSD thousand)			
Off-balance sheet items	31.12.2020	31.12.2021.	% of change
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	17,346,665	20,444,146	17.86%
Operations for and on behalf of third parties	257,727	245,181	-4.87%
Derivatives (SWAP)	470,321	471,365	0.22%
Other off-balance sheet items	79,792,616	140,412,289	75.97%
<b>Total</b>	<b>97,867,329</b>	<b>161,572,981</b>	<b>65.09%</b>

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as of December 31<sup>st</sup> 2020 and December 31<sup>st</sup> 2021:

(in RSD thousand)			
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	31.12.2020	30.09.2021	% of change
Performance guarantees	11,579,939	13,417,697	15.87%
Payment guarantees	3,153,131	4,471,642	41.82%
Unused limits which cannot be revoked	1,906,000	1,834,620	-3.75%
Issued foreign currency letters of credit with Banks' confirmation	676,086	676,097	0.00%
Issued uncovered letters of credit	31,509	44,090	39.93%
<b>Total</b>	<b>17,346,665</b>	<b>20,444,146</b>	<b>17.86%</b>

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

(in RSD thousand)			
Other off-balance sheet items	31.12.2020	31.12.2021	% of change
Received fixed assets (buildings, cars, land etc.) as collateral in favor of the Bank	42,306,867	96,262,584	127.53%
Commitments for framework loans and facilities	10,813,711	11,309,811	4.59%
Calculated suspended interest	5,076,233	5,280,990	4.03%
Financial assets pledged as collateral	1,200,000	0	-100.00%
Other off-balance sheet items	20,395,805	27,558,904	35.12%
<b>Total</b>	<b>79,792,616</b>	<b>140,412,289</b>	<b>75.97%</b>

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

The Income Statement for the period from January 1<sup>st</sup> to December 31<sup>st</sup> 2021 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank realized a profit of RSD 889,394 thousand at the end of the 2021.

(in RSD thousand)

Income Statement	31.12.2020	31.12.2021	Abs change	% of change	Plan 2021
Interest income	2,714,093	3,105,259	391,166	14.41%	3,256,780
Interest expense	521,547	615,413	93,866	18.00%	676,046
<b>Net interest income</b>	<b>2,192,546</b>	<b>2,489,846</b>	<b>297,300</b>	<b>13.56%</b>	<b>2,580,734</b>
Fee and commission income	981,159	1,512,865	531,706	54.19%	1,258,034
Fee and commission expense	207,104	339,157	132,053	63.76%	246,904
<b>Net fee and commission income</b>	<b>774,055</b>	<b>1,173,708</b>	<b>399,653</b>	<b>51.63%</b>	<b>1,011,130</b>
Net trading income	95,413	140,691	45,278	47.45%	23,515
Other operating income	48,097	38,879	-9,218	-19.17%	35,272
Net income/(losses) on impairment of financial assets	-294,510	-165,781	128,729	-43.71%	-235,147
<b>Total net operating income</b>	<b>2,815,601</b>	<b>3,677,343</b>	<b>861,742</b>	<b>30.61%</b>	<b>3,415,504</b>
Salaries, salary compensation and other personal expenses	958,415	1,125,268	166,853	17.41%	1,083,438
Depreciation costs	404,384	464,110	59,726	14.77%	482,051
Other expenses	923,096	1,141,501	218,405	23.66%	1,138,738
<b>Total operating expenses</b>	<b>2,285,895</b>	<b>2,730,879</b>	<b>444,984</b>	<b>19.47%</b>	<b>2,704,226</b>
<b>NET PROFIT BEFORE TAX</b>	<b>529,706</b>	<b>946,459</b>	<b>416,758</b>	<b>78.68%</b>	<b>711,278</b>
PROFIT TAX	0	(58,589)	(58,589)	-	0
PROFIT FROM DEFERRED TAXES	0	1,519	1,519	-	0
<b>NET PROFIT BEFORE TAX</b>	<b>529,706</b>	<b>889,394</b>	<b>359,688</b>	<b>67.90%</b>	<b>711,278</b>

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



Despite the reduction of BELIBOR and EURIBOR rates during the 2021, the Bank increased its net interest income by 13.56%, or by RSD 297,300 thousand, comparing to the same period last year, primarily due to the growth of the loan portfolio. Net income from fees and commission increased by 51.63%, or by RSD 399,653 thousand. The largest contribution to this increase was made by the growth of revenues from fees for payment transactions (increase of RSD 281,053 thousand, or 50.90%) as well as significant growth of revenues from fees charged to merchants (increase of RSD 120,475 thousand, or 477.79%), and which is the result of the expansion of the POS terminal network. Total operating expenses are higher for 19.47%, or by RSD 444,984 thousand comparing to the same period last year. The largest share in total operating expenses is recorded by salaries of employees with 47%, followed by depreciation with 9%, depreciation costs related to IAS 16 8%, premium paid to the Deposit Insurance Agency 5.9%, legal costs 3.2% and others.

Costs of legal services and litigation provisions were nearly RSD 132,230 thousand higher than in the same period last year.

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

(in RSD thousand)			
Interest income	31.12.2020.	31.12.2021	% of change
Corporate clients	1,382,840	1,607,921	16.28%
Retail clients	918,605	1,019,070	10.94%
Securities	393,195	470,002	19.53%
Other	19,453	8,266	-57.51%
<b>Total</b>	<b>2,714,093</b>	<b>3,105,259</b>	<b>14.41%</b>

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

(in RSD thousand)			
Fee and commission income	31.12.2020.	31.12.2021	% of change
Fees from payment operations	552,145	833,198	50.90%
<i>o/w Retail Segment</i>	146,384	213,107	45.58%
<i>o/w Corporate Segment</i>	377,072	581,951	54.33%
<i>o/w Banking Segment</i>	28,689	38,140	32.94%
Fees from guarantees	172,134	226,024	31.31%
Fees from FX changes	101,803	149,340	46.70%
Fees from payment cards	100,849	245,361	143.30%
<i>o/w Merchant service charges</i>	25,215	145,690	477.79%
<i>o/w Interchange fees</i>	47,384	41,773	-11.84%
<i>o/w payment cards and other</i>	28,250	57,898	104.95%
Other fees	54,228	58,942	8.69%
<b>Total</b>	<b>981,159</b>	<b>1,512,865</b>	<b>54.19%</b>

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

Interest expense	(in RSD thousand)		
	31.12.2020.	31.12.2021	% of change
Deposits – corporate	198,269	265,902	34.11%
Deposits – retail	137,474	183,900	33.77%
Banks deposits	92,278	99,780	8.13%
Borrowings IFI's	83,256	51,276	-38.41%
IFRS 16	10,270	14,555	41.72%
<b>Total</b>	<b>521,547</b>	<b>615,413</b>	<b>18.00%</b>

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

Fee and commission expenses	(in RSD thousand)		
	31.12.2020.	31.12.2021	% of change
Payment operations	104,291	154,203	47.86%
Fees from payment cards	88,941	164,480	84.93%
Credit bureau	13,145	14,624	11.25%
Credit lines	0	17	-
Other fees	727	5,833	702.34%
<b>Total</b>	<b>207,104</b>	<b>339,157</b>	<b>63.76%</b>

## 6. CASH FLOWS

Cash flows from operating activities during the 2020 and 2021 are presented in the table below:

(in RSD thousand)			
Cash inflows from operating activities	I - XII 2020	I - XII 2021	Change
Interest	2,336,690	3,307,350	970,660
Fees	986,193	1,510,907	524,714
Other operating income	13,345	13,135	-210
Dividend and share in profit	0	622	622
<b>Total cash inflows</b>	<b>3,336,228</b>	<b>4,832,014</b>	<b>1,495,786</b>
Cash outflows from operating activities	I - XII 2020	I - XII 2021	Change
Interest	461,902	587,498	125,596
Fees	204,341	336,113	131,772
Salaries	1,017,402	1,044,406	27,004
Tax and contribution	205,930	215,398	9,468
Other operating expenses	722,890	893,020	170,130
<b>Total cash outflows</b>	<b>2,612,465</b>	<b>3,076,435</b>	<b>463,970</b>
<b>Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities</b>	<b>723,763</b>	<b>1,755,579</b>	<b>1,031,816</b>

Cash inflows from operating activities before increase/decrease in financial assets or financial liabilities during the 2021 increased for RSD 1,495,786 thousand comparing to the same period in 2020.

Cash outflows from operating activities before increase/decrease in financial assets or financial liabilities increased during the of 2021 for RSD 463,970 thousand comparing to the same period in 2020.

Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2021 amounted to RSD 1,755,579 thousand, which is increase of RSD 1,031,816 thousand comparing to same period in 2020.

## 7. INVESTMENT PLAN

During the 2021 total investments in fixed assets, investment property and intangible investments amounted to RSD 970,497 thousand.

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

Investments*	Buildings	Equipment	Investment property	Intangible investments	Rents in IFRS 16 scope	Total	Plan for 2021
Balance 31.12.2020	212,371	581,297	133,306	321,182	574,008	1,822,164	1,928,346
Total increase:	5,294	225,125	0	472,856	272,381	975,656	3,280,541
IT	0	157,674	0	472,856	0	630,530	815,432
Adaption of business premises	0	46,260	0	0	0	46,260	2,379,862
Other	135	21,191	0	0	0	21,326	38,214
IFRS 16 – rents (building and cars)	0	0	0	0	272,381	272,381	47,033
Revaluation	3,305	0	0	0	0	3,305	0
Reclassification	1,854	0	0	0	0	1,854	0
Total decrease:	11,895	172,321	6,618	77,144	204,869	472,847	482,051
Depreciation	9,353	168,236	4,508	77,144	0	259,241	291,582
Depreciation – IFRS 16	0	0	0	0	204,869	204,869	190,469
Sell	1,854	3,754	2,110	0	0	7,718	0
Disposal and retirement	688	331	0	0	0	1,019	0
FX effects	0	0	0	0	0	0	36
Balance 31.12.2021	205,770	634,101	126,688	716,894	641,520	2,324,973	4,726,801

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

The Bank's investments during the 2021 were related to the renewal of customer and other IT equipment, additional investments in licenses related to card business and capitalization of the salaries of the employees engaged with implementation of the new Core banking system project. During 2021, the bank invested in the purchase of new POS terminals and ATMs and it renewed Microsoft licenses. Significant funds were invested in reconstruction of existing and new

branches and in the equipment for them. Also, a new business space was leased within the complex where the Bank's Headquarters is located, which houses the Information Technology Management Department, whose team was expanded in 2021, in order to adequately respond to the challenges imposed by the project of implementing the new core system, ie in order to realize the Core Fusion Project in the most efficient way. Of the stated increase in fixed assets, investment property and intangible assets, RSD 272,381 thousand relates to the effects of the application of IFRS 16, ie the accounting treatment of the new Real Estate Lease Agreements.

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

As of December 31<sup>st</sup> of 2021, all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS regulations.

Ratio	The values prescribed by the NBS regulations	Values as at December 31 <sup>st</sup> 2021
Regulatory Capital	Min 10,000,000 €	122,147,239€
Capital adequacy ratio	minimalno 8% (SREP 16.33%)	23.64%
Foreign exchange risk ratio	maksimalno 20%	0.73%
Liquidity ratio	Min 1	1.93
Narrow liquidity ratio	Min 0.7	1.66
Liquidity coverage ratio	Min 100%	149.86%
Exposure to one person or group of related persons	maksimalno 25%	12.34%
Sum of large exposures	maksimalno 400%	33.64%
Investment in non-financial sector	maksimalno 10%	0%
Bank's investments into non-financial sector, fixed assets and investment property	maksimalno 60%	11.20%

Business policy for 2021 as one of the main goals in the risk management process defines maintenance of capital adequacy ratio above 18%, taking into account planned capital increase in 2021 for EUR 30 million.

During the second quarter, the planned capital increase for EUR 30 million was realized, in the form of capital increase of the Bank. Additionally, based on the Decision of the Bank's General Meeting, held on April 27<sup>th</sup> of the current year, the total profit realized in 2020 as well as retained earnings from previous years in the total amount of EUR 10 million is also included in the Bank's capital.

As at December 31<sup>st</sup> 2021, calculated capital adequacy ratio was at the level of 23.64% (21.18% as at 31.12.2020.), which is still significantly above required regulatory limits.

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, National Bank of Serbia (IO NBS br.38, February 11<sup>th</sup> 2021) defines ratio of Capital and Eligible Liabilities to total liabilities for the Bank equal to 7.97%, which was previously at level of 8.44%. As per the last available calculation from June 30<sup>th</sup> 2021, the ratio of the Capital and Eligible Liabilities to total liabilities of the Bank was 20.89%, which is significantly above the defined limit. Given the structure of the portfolio, the Bank expects that this indicator will be at a similar level, and certainly many times above the prescribed level, as of 31.12.2021.

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

Pursuant to the defined limits in the agreements concluded with the international financial institutions (IFIs) – German Development Bank (KfW), Green for Growth Fund (GGF), 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 31<sup>st</sup> of 2021, 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, 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, ie. 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 2021, 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).
- 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 (hereinafter: RAF) - 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 (hereinafter: RAS) - 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. It also provides quantification of levels of risk that are hardly measurable, such as reputation risk, business compliance risk, as well as prevention of money laundering and terrorism financing.
- 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.

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.

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 RSD thousand)

Classification category	Classified amount as of 31.12.20	% of the share in gross classified assets		Classified amount as at 31.12.21	% of the share in gross classified assets	
A	37,463,655	42.94%		41,085,491	40.03%	
B	24,798,118	28.42%	71.36%	35,463,243	34.55%	74.58%
V	15,098,539	17.31%	17.31%	18,465,416	17.99%	17.99%
G	6,680,529	7.66%		3,761,704	3.66%	
D	3,203,971	3.67%	11.33%	3,869,135	3.77%	7.43%
<b>Total</b>	<b>87,244,812</b>	<b>100.00%</b>		<b>102,644,989</b>	<b>100.00%</b>	

Compared to December 31<sup>ST</sup> 2020, total assets that are classified increased by 17,65%.

Compared to the end of 2020 the structure of the Bank's portfolio was improved in terms of increasing the share of assets classified in categories A and B in total classified assets by 3.21 p.p., and decrease in categories G and D by 3.90 p.p. The share of assets classified in category V was increased by 0,68 p.p.

Portfolio quality on 31.12.2021. year according to the internal classification is at a medium level of risk, given that less than 75% of assets are 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 RSD thousand)

	31.12.2020	31.12.2021	Change
NPL portfolio	1,622,254	1,508,461	-113,793

NPL as of December 31<sup>st</sup> 2021 was reduced by 114 million RSD compared to December 31<sup>st</sup> 2020, as a result of collection of NPL receivables, as well as accounting write-off conducted for 100% impaired non-performing receivables. In the year of 2021, the Bank has collected 358 million RSD of NPL, while accounting write-off of 100% impaired non-performing receivables in the same period amounted to 242 million RSD. Despite of performing accounting write-off of receivables and transfer to off-balance sheet items the Bank does not waive its rights for the collection of non-performing exposures and legal rights arising from such loans.

On the other hand, new exposures that became the NPL comparing the end of the year 2021 to the end of the year 2020 amounted 361 million RSD.

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

Ratio	31.12.2020	31.12.2021	Change
Share of NPLs in total loans	2.87%	2.25%	-0,62 p.p.

In Credit risk management policy adopted on 30.12.2021, the limit for the level of problematic loans (NPL indicator) was defined as the ratio of gross NPL and gross loans at the level of 5%. On 31.12.2021 the Bank is below the defined limit of this indicator.

#### NPL coverage

Ratio	31.12.2020.	31.12.2021.
Ratio of NPL coverage with Impairment provisions for loans	67.75%	67.76%
Ratio of NPL coverage with NPL Impairment provisions	54.63%	53.93%

The Bank's Credit Risk Management Policy adopted on December 30, 2021, defined the highest acceptable level of bad assets in relation to on-balance sheet and off-balance sheet assets classified at a level of less than 5%, as well as the ratio of coverage of problematic loans by NPL provisions at a level of more than 35%. Share of bad assets (NPE) on 31.12.2021, year in the total classified assets is 2.02% and is significantly below the defined limit. Participation decreased compared to 31.12.2020, by 0.04 pp The ratio of coverage of non-performing loans by NPL provisions is 53.93% and is significantly above the defined limit.

#### Liquidity Risk

Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS  
in the period from January 1<sup>st</sup> to December 31<sup>st</sup> of 2021

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of 31.12.2021	1.93	1.66
Average	1.98	1.77
Maximum	2.36	2.20
Minimum	1.63	1.41
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 period from January 1<sup>st</sup> to December 31<sup>st</sup> 2021 were in accordance with the prescribed limits by the Decision on liquidity risk management by banks. 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 01.01-31.12.2021 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	26.75%	31.63%	29.65%	Min 20.00%
Net loans to total deposits ratio	87.98%	91.72%	89.91%	Max 200.00%
Customers' deposits to total deposits ratio	86.97%	93.74%	90.61%	Min 75.00%
Deposit concentration ratio	17.09%	23.62%	20.15%	Max 30.00%

The Bank was within internally prescribed liquidity limits during the period from 01.01-31.12.2021.

## Foreign exchange risk

## FX Risk ratio in the period from 01.01. - 31.12.2021

Value as of 31.12.2021	0.73%
Average	1.57%
Maximum	5.50%
Minimum	0.19%
Limit NBS	Maksimalno 20%

Foreign currency risk measured by FX Risk ratio was located in the low risk category during the 2021.

## Interest rate risk

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

Total net weighted position of the Bank as of December 31<sup>st</sup> 2021

	(in RSD thousand)
Total net weighted position	-659,210
Equity	14,362,328
Total net weighted position and equity ratio	4.59%
Internally prescribed maximum	20%

## Operational risk

In the period from January 1<sup>st</sup> to December 31<sup>st</sup> 2021 in terms of Operational risk, 118 events were reported in the Application of Operational risks. Seventy-five events of operational risk that were reported referred to cash shortage or surpluses and have been successfully resolved (46 events of cash shortage and 29 events of cash surpluses).

Number of events	118
Cash shortage	46
Cash surplus	29
External frauds	1
Other	42
Net loss in RSD	1,449,905

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 31<sup>st</sup> 2021

	(in RSD 000)	% of equity	Limit NBS
Persons related to the Bank	1,938,024	13.49%	-
Large exposures	4,830,235	33.64%	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 300%.

	31.12.2020.	31.12.2021.	Prescribed value
Concentration ratio of 20 largest clients/groups of related parties	154.54%	133.07%	Max 300% of regulatory capital

As of December 31<sup>st</sup> 2021, the concentration ratio is within an internally defined limit.

Additionally, in order to manage the concentration risk, by the Procedure for the Credit Risk Management at the portfolio level, exposure limits (balance sheet assets and off-balance sheet items) have been established to specific geographical areas and to a specific sector / business activity, which provide diversification of the portfolio. As of December 31<sup>st</sup> in the mining and processing industry, the largest exposure of the Bank is 22.51% and in retail 20.52%, which is significantly below the internally defined limit 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 33.43% and region of Central and Western Serbia and amounts to 33.28%, which is significantly below the internally defined limit of 50% and 70% respectively.

Exposures of the Bank to specific product types is monitored in accordance with NBS decision on concentration risk management. 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 31<sup>st</sup> 2021, concentration risk ratio in retail segment calculated as previously described is 7.31%, which is significantly below the defined limit.

### Investment Risk

The Bank did not have investments in non-financial sector as of December 31<sup>st</sup> 2021. 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 at December 31<sup>st</sup> 2021

	Investments into non-financial sectors	Investments into fixed assets and investment property	Total
Amount (000 RSD)	0	1,608,053	1,608,053
Share in capital	0%	11.20%	11.20%
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 31.12.2021, 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 exposure towards countries, which are in the category of low risk, is without limits. The country from this category as of December 31<sup>th</sup> 2021 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 31<sup>st</sup> 2021

Country	Risk category	Limit	Share in Bank's capital
Germany	low	without limit	5.68%
Austria	low	without limit	2.02%
USA	low	without limit	0.59%
Czech Republic	low	without limit	0.10%
Macedonia	medium	100% regulatory capital	30.67%
Türkiye	medium	100% regulatory capital	21.54%
Romania	medium	20% regulatory capital	7.40%
Bosnia	medium	40% regulatory capital	2.46%
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 relief in repayment according to the NBS Decision as of December 31<sup>st</sup> 2021

In view of the declared risk of spreading infective disease caused by the COVID-19 virus (corona virus), on December 14<sup>th</sup> 2020, the National Bank of Serbia passed a Decision on temporary measures for banks to enable adequate credit risk management amid COVID-19 pandemic (hereinafter the NBS 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 .

By these Decisions, the NBS prescribes an obligation for banks to approve relief in repayment to debtors (natural persons, farmers, entrepreneurs and companies) who due to the conditions caused by the COVID-19 pandemic have or may have difficulties in the repayment of liabilities, at their request. In accordance with the Decision and guidelines of the NBS, the Bank offered its debtors the possibility to use the repayment reliefs by posting the offer on its website and sending an individual notice to its debtors who are in arrears longer than 30 days on November 30<sup>th</sup> 2020.

The amendment to the Decision from February 2021 stipulates the obligation for banks to deliver an individual notice to debtors who are in arrears longer than 30 days on February 28<sup>th</sup>, 2021

The Bank approved to a debtor (natural person, farmer, entrepreneur and company) a relief in repayment of liabilities if all of the following conditions have been met:

– a borrower is unable to settle its liabilities to the bank and/or may have difficulties in settling these liabilities due to the COVID-19 pandemic;

– as at February 29<sup>th</sup> 2020 and in the 12-month period before that date, a borrower did not default on its liabilities to such bank, and neither of the claims on such borrower was classified as a non-performing loan.

The repayment reliefs are approved at the request of the debtor, and applies to the obligations of the Bank's clients on the basis of loans and credit products (credit cards and allowed overdrafts on the current account), approved until the date of entry into force of the Decision (December 15<sup>th</sup> 2020). The request may be submitted for one or more loans / credit products in use, no later than April 30<sup>th</sup> 2021.

The reliefs provided by the Decision refer to the reprogramming and refinancing of loans and liabilities, with the approval of a grace period of 6 months and the appropriate prolongation of the repayment period, so that the debtor's monthly obligations do not exceed those from the repayment plan before approving the relief. During the grace period, the Bank calculates interest, whereby the debtor determines whether to pay interest during the grace period or after its expiration.

In accordance with the provisions of the Decision, the Bank sent, until December 31<sup>st</sup> 2020, ie until March 31<sup>st</sup> 2021, individual notices to all debtors who met the criteria defined by the Decision.

As at June 30<sup>th</sup> 2021, the Bank has realised all accepted notifications and approved requests for relief in repayment.

The total number of debtors for whom the relief in the repayment of receivables has been applied is shown in the tables below:

(in thousands RSD)

Type of debtor	Realised notifications / Requests		With paying interest			
	No of debtors	Amount	No of debtors	Amount	% No of debtors	% Amount
Retail	1,066	1,007,269	210	156,336	19.7%	15.5%
Farmers	65	97,593	33	29,263	50.8%	30.0%
Legal entities	147	2,154,675	117	1,853,354	79.6%	86.0%
Entrepreneurs	104	249,725	88	226,398	84.6%	90.7%
<b>TOTAL</b>	<b>1,382</b>	<b>3,509,262</b>	<b>448</b>	<b>2,265,351</b>	<b>32.4%</b>	<b>64.6%</b>

Out of the total number of debtors, 32.4% decided to pay interest during the grace period.

The number of debtors who decided to pay interest during the grace period is the lowest in the retail segment (19.7%), while the share in the segment of legal entities and entrepreneurs is significantly higher (81.7%).

The relief provided by the Decision were realized on a total of 1646 loans, with only 38 loans being refinanced, while the other 1608 loans were rescheduled.

As at December 31<sup>st</sup> 2021, NPL ratio of loans with realized reliefs is 6,26%. An overview of by type of debtor is given in the table below:



(in thousands RSD)

Type of debtor	Total number of loans	Total amount	Number of NPL loans	NPL amount	NPL %
Retail	1,141	977,580	77	44,131	4.51%
Farmers	68	98,436	2	3,523	3.58%
Legal entities	219	1,718,769	6	137,679	8.01%
Entrepreneurs	128	185,387	3	1,212	0.65%
<b>TOTAL</b>	<b>1,556</b>	<b>2,980,172</b>	<b>88</b>	<b>186,545</b>	<b>6.26%</b>

Related to the status of debtors with whom the reliefs were applied, as of December 31<sup>st</sup> 2021, out of the total number of debtors, 76,3%, ie 52,6% of the total amount of exposure, is classified in Stage 1 in accordance with IFRS 9.

An overview of by type of debtor and stage is given in the table below:

## Per number of debtors

Type of debtor / Stage	Retail	Farmers	Legal entities	Entrepreneurs	Total	%
Stage 1	819	61	63	67	1,010	76.3%
Stage 2	124	2	59	29	214	16.2%
Stage 3	78	2	16	4	100	7.6%
<b>TOTAL</b>	<b>1,021</b>	<b>65</b>	<b>138</b>	<b>100</b>	<b>1,324</b>	<b>100.0%</b>

## Per amount

(in thousands RSD)

Type of debtor / Stage	Retail	Farmers	Legal entities	Entrepreneurs	Total	%
Stage 1	821,720	92,727	520,185	134,351	1,568,983	52.6%
Stage 2	107,803	2,186	910,789	48,248	1,069,026	35.9%
Stage 3	48,057	3,523	287,795	2,788	342,163	11.5%
<b>TOTAL</b>	<b>977,580</b>	<b>98,436</b>	<b>1,718,769</b>	<b>185,387</b>	<b>2,980,172</b>	<b>100.0%</b>

#### 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 31<sup>st</sup>, 2021.

## V PROJECTED FUTURE DEVELOPMENT

The business policy and strategy of the Bank define the basic business goals and main guidelines for the development of Halkbank a.d. Belgrade on the Serbian market.

With the capital increase in 2021 in the amount of EUR 30 million, the Bank has achieved and will have an excellent basis for rapid growth and continued business in the future.

One of the main goals is to expand the business network to more than 50 branches, while raising market share in Belgrade and other regions where the Bank currently has no branches. The bank will continue to be SME-oriented, but will remain focused on the retail segment as well. It is planned that key balance sheet positions will grow faster than the expected growth of the banking sector.

All these activities will contribute to increasing market share in the banking sector to 3% in terms of total assets with sustainable growth, good liquidity and capital adequacy.

## VI RESEARCH AND DEVELOPMENT ACTIVITIES

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

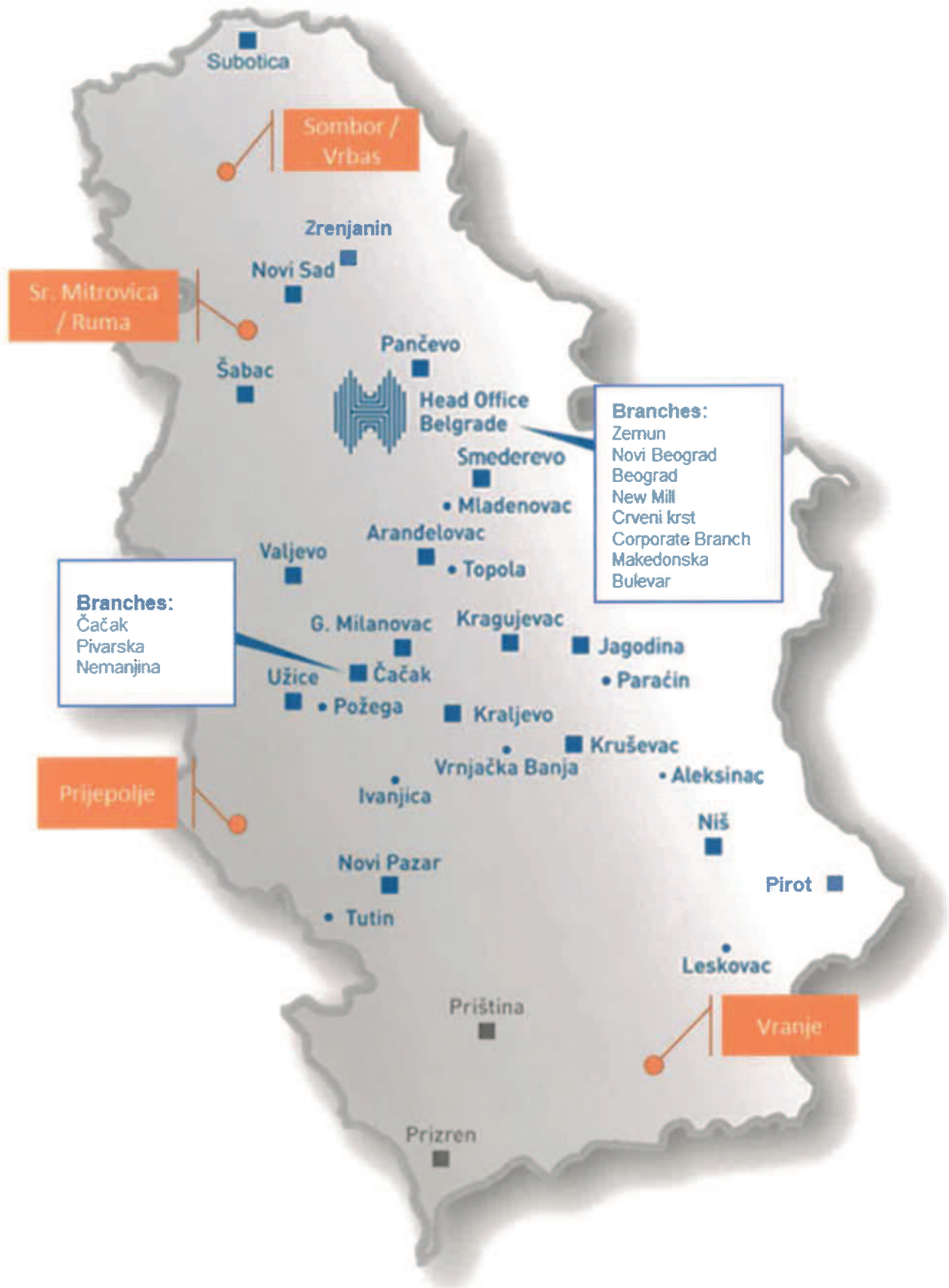
The Marketing Department continuously develops new products and services of the Bank and strives to develop and offer modified existing products, as well as completely new products and services, based on the information and conclusions obtained through market research activities and customer needs.

## VII INFORMATION ON REDEMPTION OF SHARES

There was no redemption of own shares during 2021.

## VIII EXISTENCE OF AFFILIATES

Halkbank a.d. Belgrade has been successfully expanding its business network and client base. Today, the Bank's products and services are provided through a business network of 28 branches, 8 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 and Subotica, as well as 8 branches - in Paracin, Pozega, Topola, Ivanjica, Vrnjacka Banja, Zrenjanin, Tutin and Pirot.



## IX 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 Supervisory Board Members;
- Code of Conduct and Ethical Principles;
- Anti-corruption Policy and
- General Operating Conditions.



NON-FINACIAL REPORT

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2021

## 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** - HALKBANK 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

HALKBANK has been repeatedly recognized by Commerzbank as a bank that provides excellent quality in the delivery of commercial payments and transfers of financial institutions.

Based on research conducted by the international organization "ICERTIAS" HALKBANK a.d. Belgrade was awarded the prestigious "Customers' Friend" award.

Following the motto "People first", HALKBANK launched the "Meet us" campaign. For this campaign, the Bank was awarded in 2018

### 5. Communication strategy

HALKBANK's communication strategy in 2021 had to adapt to the COVID-19 pandemic. The communication was aimed at supporting the economy, the population and the health system, all in accordance with the mission and vision of HALKBANK a.d. Belgrade. The bank's products and services and community support activities in the era of the pandemic have been successfully communicated. Digital

communication channels were used to ensure smoothly communication with the external and internal public.

On the Bank's website, clients can find up-to-date information on activities undertaken in order to prevent the spread of the COVID-19 and to preserve the health of employees and clients.

Although the Bank turned to digital media in the pandemic, it also took its appearance in media articles. In line with expectations, a large number of visits to the Bank's website and social networks profiles were recorded - Facebook, Instagram, LinkedIn, Youtube.

All important information and measures related to COVID-19 are constantly distributed through traditional and modern communication channels. All stakeholders were informed about the new situations - Moratorium I, II and III, new ways of pensions

payment, business loans within the State Guarantee Scheme. This reduced the pressure on the business network and call center as customers were able to obtain the necessary information.

Halkbank a.d. Belgrade is the first bank in Serbia to start cooperation with the Serbian Foundation for Entrepreneurship (SEF) on the project of providing loans for maintaining liquidity and working capital and providing loans to companies affected by the coronavirus pandemic. The focus is on young companies and agricultural farms, to which the Bank provides favorable conditions for improving business development. The project includes a special line of start-up loans aimed at newly established micro, small and medium enterprises as well as individual agricultural farms not older than 2 years. Supporting young entrepreneurs increases the competitiveness of small business

## II KEY EVENTS IN THE PREVIOUS YEAR

### JANUARY

HALKBANK has introduced the possibility of opening a current account online.

Prospective clients of the Bank are enabled to send requests for opening a current account via the Bank's website. Opening an account is further facilitated by the fact that after sending the request, all documentation and cards are delivered to the client's address, so you do not need to come to the Bank.

In January, a new electronic banking solution - HALCOM - was presented to corporate clients.

Halcom e - banking service is a fast and efficient way to perform domestic and international payment transactions for all legal entities and entrepreneurs who are clients of HALKBANK.

### MARCH

A new Visa Gold credit card has been available to customers since March. In addition to accessing additional funds when needed, this card brings additional benefits, with a special emphasis on benefits for those who like to travel.

### MAY

Capital of HALKBANK a.d. Belgrade has been increased by 30m euros. This way, the Bank's capital reached the value of 136 million euros. The parent Bank once again confirmed its long-term commitment to development in Serbia, providing support to employees and customers of the bank.

In a desire support the economy, and help the recovery of the business companies affected by the corona virus pandemic, HALKBANK, in cooperation with the SEF, created a special credit line. Liquidity and working capital loans were offered through the support initiative.

### JUNE

After an unstable year in which we were affected by the pandemic, knowing that everyone needs rest and relaxation, HALKBANK has provided an offer of Tourist Loans under very attractive conditions and a number of benefits.

### JULY

HALKBANK retail clients are enabled to withdraw money from all ATMs without commission during their stay in Türkiye. This

way, we contributed to the enjoyment of a relaxed holiday, in the period until the end of October.

#### AUGUST

The possibility of accessing additional funds for business clients has been further facilitated by the introduction of the Mastercard Business credit card. With this card, customers can simply and easily pay for goods and services and withdraw cash in Serbia and abroad, up to an approved limit tailored to their business.

#### SEPTEMBER

To make it easier to start school, we have created special loans. School loans were intended for the purchase of books, school supplies and other things needed by students who start school.

#### OCTOBER

Once again, a support was given to the "Budi Human" foundation. Funds were donated to help those whose lives were in danger.

Cooperation with SEF was re-established, and this time the focus was on start-ups. Special loans intended for newly established business and agricultural entities, that have been operating for less than 2 years, have provided support to companies with great ideas that needed additional financial resources.

#### DECEMBER

Halkbank a.d. Belgrade has successfully implemented the first phase of the HALK Fusion project. This project was started in order to improve the services provided by the Bank to customers and improve the user experience.

The HALK Fusion project will bring many benefits to the Bank's clients through a larger offer of HALKBANK products and services, making them simpler and more efficient. Major changes are expected in the field of applications, including mBanking and eBanking services.



## III KEY STAKEHOLDERS AND MATERIAL TOPICS

KEY STAKEHOLDERS		
STAKEHOLDER GROUP	COMMUNICATION AND ENGAGEMENT CHANNELS	STAKEHOLDER AREA OF INTEREST
<b>CUSTOMERS</b>	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	Preventive actions and healthcare during the pandemic
Big Corporate Clients	Print and digital media	Responsible advertising
	Meetings	Flexible products and services
<b>SHAREHOLDERS AND INVESTORS</b>	General meetings	Transparent management
Majority	Annual reports	Business results
	Bank website	
<b>EMPLOYEE</b>	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	Preventive actions and healthcare during the pandemic
Union		

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

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.

## 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 Bank's Board of Directors 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 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

<b>GROSS DOMESTIC PRODUCT</b>	<b>in RSD thousand</b>	<b>in RSD thousand</b>
<b>Contribution of the bank to GDP</b>	<b>2021</b>	<b>2020</b>
<b>Total income</b>	4,777,365	3,823,993
<b>Interest and fees expenses</b>	- 954,570	- 728,651
<b>Losses on impairment of financial assets</b>	- 165,781	- 294,510
<b>Contribution of the bank to GDP</b>	<b>3,657,014</b>	<b>2,800,832</b>
<b>I. Employees</b>		
<b>Net salaries</b>	737,972	680,579
<b>Tax on salaries</b>	90,345	83,636
<b>Contributions on salaries borne by the employees</b>	192,190	173,115
<b>Contributions on salaries borne by the employer</b>	163,986	147,989
<b>Other personnel employees</b>	22,438	21,037
<b>Total</b>	<b>1,206,931</b>	<b>1,106,356</b>
<b>II. Suppliers of goods and services</b>	<b>597,963</b>	<b>556,176</b>
<b>III. Donations/sponsorships</b>	<b>1,999</b>	<b>2,364</b>
<b>IV. State</b>		
<b>Profit tax</b>	58,614	7,656
<b>(Profit)/loss from deferred taxes</b>	- 1,519	-
<b>Communal taxes</b>	23,770	21,499
<b>Property tax</b>	1,952	2,449
<b>VAT</b>	21,622	18,218
<b>Other taxes</b>	4,006	8,816
<b>Deposit insurance</b>	160,237	129,423
<b>Tax on salaries</b>	- 90,345	- 83,636
<b>Contributions on salaries borne by the employees</b>	- 192,190	- 173,115
<b>Contributions on salaries borne by the employer</b>	- 163,986	- 147,989
<b>Total</b>	<b>- 177,840</b>	<b>- 216,679</b>

## 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 and it is the highest body since its sessions decide on the most important business issues: define business goals, decide on increasing and decreasing capital, use and distribution of profits, adopt the Statute and adopt amendments to the Founding act and other issues in accordance with applicable regulations.

One of the most 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 legal regulations.

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 2021, 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 2021, the Supervisory Board of the Bank held 10 sessions. 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, strategic and business initiatives especially in managing the situation caused by the Covid-19 epidemic, risk management, internal system control, business compliance and internal audit, as well as other important issues.

### 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. The Executive Board consists of 3 members, including the President.

During 2021, the Executive Board of the Bank held a total of 54 sessions. 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.

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.

#### SUPERVISORY BOARD

1. Osman ARSLAN - president
2. Hasan TUNCAY, member
3. Olcay DOĞAN, member
4. Altan TAŞKIRAN, member
5. Hakan BAŞARAN member
6. Dr Jasmina BOGIĆEVIĆ member
7. Vesna VUKOVIĆ member

#### EXECUTIVE BOARD

1. Kenan Bozkurt – president
2. Ertürk Sümer, member
3. Dušica Erić, member

#### Audit Committee

1. Hasan TUNCAY, president
2. Hakan BAŞARAN, member
3. Dr Jasmina BOGIĆEVIĆ, member

#### Credit Committee

Decision on establishing Credit Committee and appointment members of the Credit Committee

**Assets and Liability Management Committee**

Decision on establishing and appointment President and Members of the Assets and Liability Management Committee

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

## V ALTERNATIVE DISTRIBUTION CHANNELS

Following the enviable trend of growth and development of the offer of products, services and services in 2020 and earlier years, Halkbank a.d. Belgrade in 2021, in line with its long-term strategy, remains very focused on developing a digital portfolio. In addition to providing quality services by default, in accordance with the principles of traditional banking, great importance is given to the development of technology that aims to, with superior user experience, enable digitally oriented target group to use banking services efficiently.

After the implementation and start of production of its own processing center for card transactions and card personalization systems in 2020, in 2021 Halkbank's forces are focused on exploiting new systems, products and services that resulted from the successful completion of the project under the internal name "Tesla". With its own center for processing card transactions and card personalization, the Bank has provided a solid foundation for further development of digital solutions and card business. This long-term business concept provides the bank with significant savings from the operational aspect, and at the same time it is very important because it creates an opportunity for quick reaction when defining and placing new products and services.

In this regard, Halkbank offers the Serbian market a total of ten card products from the debit and credit segment. A complete change in the concept in previous years, in relation with the submission of card requests, production and delivery of payment cards to customers, helps Halkbank only in 2021 to increase the number of issued debit cards by over 60% in the retail segment while growth in the corporate segment increased by over 500%. An enviable result was also achieved in the field of issuing credit cards for individuals and legal entities, when almost 5,000 cards were issued in 2021 alone.

Numerous benefits for Visa and Mastercard card users were presented during 2021, in the way that customers had the opportunity to win valuable prizes in return in relation to the regular use of Halkbank payment cards as a means of payment at POS terminals. Also, for debit card users, Halkbank enabled cash withdrawals at all ATMs in Türkiye during the summer holidays free of charge.

In support of the development of the domestic card scheme, Halkbank will complete the development and implementation of chip technology for DinaCard cards in 2021. In this way, the DinaCard card gives users additional security when paying, bearing in mind that much is already in the security of chip technology compared to the traditional magnetic track.

Payment with cards is becoming more and more common on the Internet, and Halkbank's goal is to do everything in this field that technology enables in order to protect the interests and financial resources of its customers. Accordingly, in 2021, Halkbank has upgraded the 3D Secure security system to version 2.0, which will provide users with a more pleasant experience when paying by card in virtual stores in the future.

With aggressive steps, Halkbank proudly joined the race to conquer the market in the segment of accepting payment cards at merchants' POS terminals. During 2021, Halkbank achieved almost incredible growth in the number of acquired merchants, the number of installed POS terminals, the number of processed transactions and realized turnover. During 2021, the increase in the number of retailers will reach 65%, while the number of POS terminals will increase by over 100%. The growth in the number of approved transactions on the Halkbank POS terminal network in 2021 compared to 2020 is 491%, and at the same time the volume of approved transactions increased by 488% in 2021 compared to 2020.

In addition to its market presence with a network of POS terminals for accepting payment cards, in 2021 the Bank will make



final preparations for the start of providing card acceptance services in virtual online stores for domestic merchants. Preparations during 2021 in this segment were aimed at realizing the intention to make Halkbank the dominant eCommerce acceptor with a wide range of options in the eCommerce segment. In this regard, in addition to the standard eCommerce service, Halkbank has prepared a platform in 2021 that will offer merchants eCommerce business with the option to store card data for future fast payments, the option of automatic renewal billing in a given period, the option to create a payment link and more methods for integration with the bank's system depending on the technical preconditions and readiness of the merchant.

Aware of the fact that the number of ATMs plays a major role in the decision when choosing a bank, Halkbank gives great importance to maintaining and expanding the ATM network. As of 2021, the Halkbank network has 91 ATMs. During 2021, 38 old ATMs were replaced with completely new modern ATMs. The result of the investment in the rejuvenation of the ATM network leads to the fact that Halkbank has 36 ATMs that, among other options, offer the function of depositing dinars directly to the current account of an individual. There was an increase in this segment as well, and the number of transactions at Halkbank ATMs in 2021 increased by 37% compared to 2020 and the volume increased by as much as 53%.

Supported by the Covid-19 virus pandemic, digital banking has taken an important position in the past, which leads to the fact that the entire market is growing, and the

same applies to the result of Halkbank, which reaches enviable values in this area.

By introducing a completely new and innovative platform for electronic and mobile banking in 2020, an environment has been created with which Halkbank manages to significantly increase efficiency, quality, stability, security and user experience while using the service in 2021. Halkbank respects the requirements of its customers, so in 2021, Halcom e-banking solutions become available to customers. With numerous improvements in the field of electronic and mobile banking available to Google users Play, App Store and Huawei AppGallery, there was a significant and stable growth in the number of users, the number of accounts and the turnover. Thus, the number of payment orders for individuals in domestic payment transactions in 2021 increased by 40% and 69% in transactions respectively, and the number of payment orders for legal entities in domestic payment transactions increased by 22% and 36% in transactions, respectively.

A very important role in the process of providing quality service is played by the Halkbank Contact Center, which is available 24/7 throughout the year, including holidays. Contact of the Halkbank Center through telecommunication channels, in addition to standard inquiries and providing information, provides support to payment card users, merchants, users of electronic services and the entire network of business units. In this way, during 2021, the Contact Center provided customer support by 25% more in 2021 compared to 2020 in terms of the number of telephone calls

## 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.

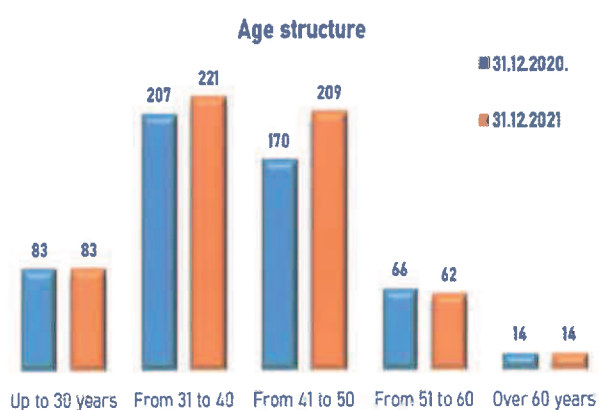
Training in the field of business compliance "Business Morality and Ethical Principles" was organized by the Department in September 2021, in the form of a presentation that was delivered to all employees of the Bank via e-mail. The training covered general topics related to corruption and business ethics. 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

The Bank invests significant resources in the care of employees, staff development and careful selection of new staff, in order to adequately follow the growth and development of business and increasingly demanding market conditions. At the end of the 2021, the Bank had 589 employees, which represents a growth of 9%, with the largest increase in the number of employees in the Information Technology Sector. The following table provides an overview of the structure of the number of employees in the Bank's Head Office and business network::

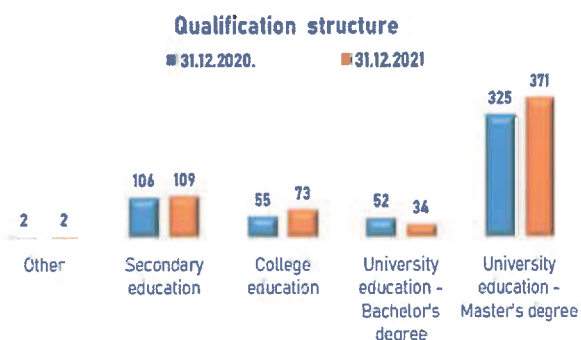
Number of employees	31.12.2020	31.12.2021	Plan 2021
Headquarter	228	271	253
Branches	312	318	327
<b>Total</b>	<b>540</b>	<b>589</b>	<b>580</b>

The following graphs show the qualification and age structure of employees as of December 31<sup>st</sup> 2020 and December 31<sup>st</sup> 2021:



In the qualification structure of employees at the end of the 2021, the share of employees with high education was 68.8%, while the participation of younger than 40 years was 51.6%. The Bank intensively invests in

improving the skills and knowledge of employees through external and internal trainings and participation in educational panels. Particular attention is paid to the Bank's internal communication to all employees in order to be familiar with the strategic goals and results, and the most important challenges and activities.



Expenses for salaries, salary compensation and other personal expenses in the 2021 amounted to RSD 1,125,268 thousand and accounts for 104% of budget for 2021.

As of COVID-19 pandemic outbreak, the Bank has undertaken a number of activities in order to protect employees. Employees were provided with protective equipment and disinfectants and regular disinfection of facilities was provided. Employees are enabled to work from home in order to ensure business continuity, while respecting self-isolation measures in cases prescribed by regulations.

### Working at Halkbank a.d. Belgrade

Halkbank a.d. Belgrade since its founding, has set as one of its main goals employee satisfaction, as well as continuous investment in the development and career advancement of each of its employees. Our motto is: "People first" and in accordance with that we are committed to continuous improvement of our human resources, through advanced selection process, training programs, evaluation methods and rewards, aware that our employees are the greatest advantage of the Bank. The main goal of the Human Resources and Organization Department is to contribute on the one hand through cooperation with business units, and on the other hand through organization and active relationship and support to employees on all issues that are important to them. In that way, we ensure continuous and successful business.

One of the challenges we faced in 2020 and 2021 was the emergence of the COVID-19 pandemic. The work is organized in accordance with the prescribed epidemiological measures in order to preserve business continuity with special emphasis on preserving the health of employees. In all organizational units where the job description allows work outside the

Bank's premises, employees are sent to work from home.

The procedures applied during selection process as well as the promotion of employees are clear and give the possibility of employment to anyone who meets the set criteria defined by the Employment Policy and Procedure.

In accordance with the business plans in 2021, the number of employees was approximately the same as in the previous year (589 employees in 2021 compared to 540 employees in 2020).

The average age of Halkbank employees in 2021 was 40, of which 83 employees are younger than 30, 430 are between 30 and 50, while 76 are older than 50. Compared to the previous year, the differences are small: in the group up to 30 years of age in 2020 there were 83 employees, between 30 and 50 years were 377, and over 50 there were 80. The age structure of members of the Bank's Executive Board is in line with average years employees of the Bank.

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 - 69% of women and 31% of men. Gender representation among the Bank's management is balanced, with 53% of women in senior management compared to 44% of men, while the distribution among other employees is 72% of women and 28% of men.

The bank's headquarters are located in Beograd, where 56% of employees work. Branch network is growing from year to year, so that we currently have 36 branches / sub-branches / counters in several cities throughout Serbia.

Type of business structure		
Year	2020	2021
Head Office employees	237 (43,89%)	303 (56,11%)
Branch Network employees	270 (45,84%)	319 (54,16%)

Age structure		
Year	2020	2021
Up to 30 years old	83 (15,37%)	83 (14,09%)
31 – 50 years old	377 (69,81%)	430 (73,01%)
Above 50 years old	80 (14,82%)	76 (12,90%)

Age / type of position structure			
Type of position	Up to 30 years	31-50 years	Above 50 years
Total	83 (14,09%)	430 (73,01%)	76 (12,90)
Managerial position	3 (2,86%)	80 (76.19%)	22 (20,95%)
Operational position	80 (16,54%)	350 (73,31%)	54 (11,16%)

Employees fluctuation		
Year	2020	2021
Employed		
Total	78	135
Male	31 (39.75%)	43 (31.86%)
Female	47 (60.25%)	92 (68.14%)
Contract termination		
Total	63	86
Male	26 (41.27%)	31 (36.05%)
Female	37 (58.63%)	55 (63,95%)
Fluctuation	11,83%	15,23%

Gender/type of position structure				
Type of position	Male 2020	Female 2020	Male 2021	Female 2021
Total	172 (31.85%)	368 (68.15%)	184 (31.24%)	405 (68.76%)
Managerial position	41 (45,56%)	49 (54.44%)	49 (46.67%)	56 (53.33%)
Operational position	131 (29.11%)	319 (70.89%)	135 (27.89%)	349 (72.11%)

Qualification structure		
Year	2020	2021
University degree	376 (69.63%)	405 (68.76%)
College degree	60 (11.11%)	73 (12,39%)
High school or less	104 (19.26%)	111 (18.85%)

### Total number and turnover rate of employees

›Retirement: 2021 - 1

›Employed: 2021 - 135; 2020 - 78

›Termination of employment: 2021 - 86; 2020 - 63

›Fluctuation in 2021 was at the level of 15.23%, and in 2020 11.83%

›Of all employees whose employment with Halkbank was terminated in 2021, 64% were female and 36% male.

### Employment selection process

During 2021, the Bank continued to grow as well as introduce new jobs. Most needs were noted within the IT Department and Branch Network. The process of employment selection is based on the corporate values that the bank nurtures, and these are firstly trust, respect and honesty, then professionalism and discipline, speed and efficiency, quality and simplicity, and finally in accordance with all these development. In line with its strategy for continuous growth and commitment to our clients, there is a need for a motivated and talented team ready to take

the initiative, so the key criteria in selecting new employees are expertise and professional approach to business commitments. In addition to the mentioned qualities, the selection process includes interviews that are held live or through the Microsoft Teams application, testing foreign language skills and possessing other specialized skills and / or knowledge. In the process of searching for candidates and selection, in 2021 the Bank continued the usual way of advertising through digital channels, such as social networks.

Halkbank a.d. Beograd took part in the state program "My first salary". The goal of the program is to provide opportunities for graduate students to gain their first work experience, knowledge and skills in institutions that see potential in young people. In accordance with that, the Bank gave 5 young people a chance to get to know the work of the financial institution through work on specific jobs within the sales network as well as the headquarters.

### Employee appraisal system

The employee appraisal system is divided into two categories:

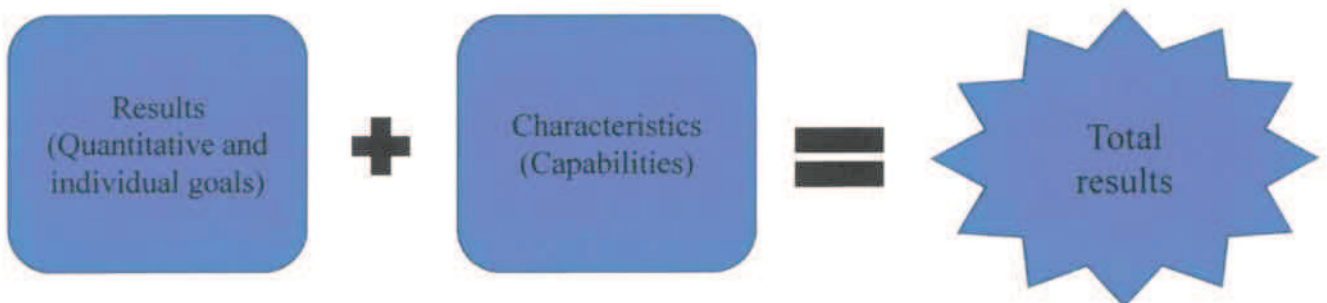
- Key performance indicators - individual quantitative goals defined in accordance with the Bank's strategic goals

- Competences - behaviors that represent a set of required knowledge, skills and abilities, in order to perform business processes

When the manager and employees establish the expectations and results that must be achieved, as well as the methods and approaches needed to achieve them, they establish the path to success.

Competences are the same for all employees of the Bank, and their values differ depends on the business line (front office or back office). Competences are as follows: ethical principles, customer orientation, approach to work, teamwork and cooperation, orientation towards quality of work, management and development, effective communication, risk and control.

The final determination of the results is calculated on the basis of the following formula:



### Employee training and development

#### Internal training

Internal trainings at Halkbank are intended for smaller or larger groups of employees in accordance with the topic or agenda of the training itself. The initiative for organizing the training starts from the direct managers of employees or managers of other professional business lines, as well as the Human Resources and Organization Department .

Internal trainings are held at the Bank's premises or online using digital communication channels. In the previous period, the Bank recognized employees who distinguished themselves as competent lecturers, ie employees who are experts in their fields of work and have the ability to transfer knowledge to their colleagues.

Halkbank organizes mandatory induction training for new employees, during which employees are introduced to the scope of work of each organizational unit in the bank and the emphasis is placed



on a more detailed presentation of the Code of Business Conduct and rules of written and oral communication.

Mandatory internal trainings, ie trainings that are in accordance with the legal regulations are conducted in accordance with the annual plans of the competent organizational units.

#### External, in-house trainings, specialist seminars and certifications

The trainings are intended for all employees in accordance with the job descriptions they perform. The training plan was set in accordance with the analysis of needs for additional training conducted by all Departments and Departments within the Bank.

Each type of education is related to the employee development plan and Halkbank invests certain financial resources every year to enable employees to improve.

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.

In-house training called "Customer Relationship Management" is organized with the aim of further development and advancement in the field of credit business and debt structuring. This training is characterized by great interactivity and work on practical examples. It was organized in December 2021 for 45 colleagues in managerial positions in the network (branch directors, head of sub-branches directors, regional directors). Training is based on the rich experience of lecturers and a unique way of transferring knowledge.

The number of employees who attended trainings in 2021 is 673, which shows that employees attended more than 1 training. The emphasis was on attending as many internal trainings as possible as well as specialized external trainings.

The number of training hours in 2021 was about 4,700.

## Employee rights

Employees of Halkbank a.d. Beograd is guaranteed the right to associate, 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.

Within Halkbank a.d. Beograd there is a representative union with over 200 members, while general act in Halkbank a.d. Beograd is Labor Rulebook.

Employees have the right to healthy and safe work. Halkbank a.d. Beograd respects all legal regulations related to safety and health at work, organizes first aid training, regular ophthalmological examination for all employees who work at the computer for more than 4 hours a day.

During 2021, there were no deaths related to accidents at work, nor occupational diseases that would result in a longer absence from work, and 3 injuries at work were recorded. 1 injury at work was characterized as severe (bone fractures), while the other two injuries were characterized as

minor. Due to the mentioned 3 injuries at work during 2021, employees spent a total of 696 working hours on sick leave.

During 2021, 34 maternity leave was realized at the level of the Bank, compared to 26 in 2020, there were no male colleagues who used maternity leave.

### Compensation (cash benefits) and other benefits

As part of the employee benefits, cooperation with Wiener Stadtische osiguranje continued in 2021 and employees were enabled to participate in the additional private health insurance program.

All employees of Halkbank a.d. Beograd 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. Also, for the children of deceased employees, scholarships are paid during regular schooling.

### Complaints mechanisms

Employees of Halkbank a.d. Beograd 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 2021, no complaints regarding human rights violations were filed through the above procedures, just as during 2020, when there were no complaints. During 2021 and 2020, there were no complaints from our employees, ie identified cases related to discrimination based on race, gender, religion and etc.

### Achieved in 2021:

- High level of retention of expert positions in the Bank
- Improving the work process in the area of human resources administration
- Regularly informing employees about all epidemiological measures taken, relevant information related to health protection and instructions on the organization of work in changed circumstances (including providing work from home for all employees whose work allows it).
- Intensive promotion of the Bank's corporate values

### Goals for 2022:

- Strengthening the employer brand in the labor market
- Cooperation with educational institutions in order to attract young and talented staff
- Defining personal plans for employee development
- Active acquisition of talent in the market

- Digitalization of HR process
- Introducing strict employee promotion policy

## VIII RESPONSIBILITY TOWARDS CLIENTS

### Customer support

The Bank is committed to social responsibility, primarily through support to the development of entrepreneurship and strengthening the entrepreneurial spirit in Serbia. During 2021, we started 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.

In the second quarter of 2021, the Bank introduced Covid-19 credit line, which was designed in cooperation with the SEF Foundation to support small and medium enterprises, entrepreneurs and AGRO clients whose business is directly or indirectly affected by the Covid-19 pandemic. Clients benefit through easier access to finance, in order to ensure business continuity in times of crisis and thus preserve employment. Through the credit line, the Bank realized 146 loans in the total amount of EUR 2.6 million.

In the fourth quarter of 2021, the Bank expanded its cooperation with the SEF Foundation by providing support to beginners in business through a start-up credit line. In this way, we provide support to new SME clients, entrepreneurs and AGRO clients who have very difficult access to finance in the market. Thus, the Bank, in cooperation with the SEF partner foundation, provides real support to the development of entrepreneurship, self-employment and empowering private initiative in business. It is planned to provide clients with financial education and assistance in formalizing business ideas through the development of business plans.

### 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. Through continuous research, 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 in building good relationships with both clients and employees. The slogan "People first and foremost" 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 with the local and global community is of great importance because creating these relationships leads to building a better environment for common growth and development.

Halkbank aims to make a good impact on the surrounding community, beside challenging circumstances of the Covid-19 virus pandemic in which we found ourselves in early 2020. The bank has found ways to contribute to the local community supporting city institutions, the health system, other companies and those who need help the most. The bank stands behind the fact that success requires not only quality business, but also a contribution to the community.

### **Support to the health system of the Republic of Serbia**

In March 2020, we entered the Covid-19 pandemic. Among the challenges in terms of daily life, business environment and lack of supplies, the biggest hit was health institutions, whose services were crucial at the time. In accordance with our socially responsible business priorities, on April 8, 2020, the Bank met the needs of the community that cares for the most endangered by allocating 1,200,000.00 RSD for a donation sent to the Republic Public Health Insurance Fund of the Republic of Serbia during the first wave of the pandemic. The Bank again met the needs of the health system on July 14, 2020, by donating a financial aid of 500 EUR to the hospital in Novi Pazar. The bank also decided to contribute to the General Hospital in Čačak in the form of furniture allocation. As a socially responsible company, with these gestures we have continued the practice of helping health institutions and supporting the development of local communities.

### **Donation to the archive in Cacak**

As Halkbank always looks for ways to contribute to the development of its community, on November 5, 2020, Bank donated equipment to the Inter-Municipal Historical Archive of Čačak, with purchase value of RSD 20 million. The purpose of the donation is to encourage the progress of digitalization, which is of great importance for the Archive, which is a cultural asset of the Republic of Serbia.

### **Help to those who need it most**

The bank donated EUR 5,000 to the humanitarian organization "Be Human – Aleksandar Sapic. This way, the Bank has made care, assistance and quick intervention a priority when the future of the youngest is endangered.

### **Supporting through sponsorship**

The Bank supported the conference "Serbian Insurance Days" of the Association of Insurers of Serbia and set aside EUR 10,800 for this occasion. The conference was held from 24-26.11.2021. in the Hotel Izvor in Arandjelovac as well as electronically in the form of a WEBINAR. Halk animations were shown at the event and the logo of HALKBANK a.d. Belgrade on all commercials, as well as on the website of the Association of Insurers of Serbia.

### **Environmental protection**

In 2021, Halkbank a.d. Belgrade, 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 2021, electricity consumption was 1,689.38 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 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, which was particularly pronounced in 2021 due to the Covid 19 pandemic;
- Lease a printer with an advanced printing system to reduce energy, paper and toner consumption
- Installation of MOBOTIX cameras that saves energy and IT resources for many years.

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 2021, the Bank handed over 2,420 kg of hazardous electronic and electrical waste for destruction and recycling and 700 kg of paper.

#### **GOALS FOR 2022:**

In the implementation of business policy in the field of environmental protection, the Bank's goals for 2022 are:

- 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 RSD thousand)				
	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31.12.2020.	31.12.2021.	31.12.2020.	31.12.2021.	
High – Exclusion List	0	0	0	0	0
High – Category A	14	17	513,623	1,350,312	836,689
High	382	408	15,730,447	17,006,335	1,275,888
Medium	2,534	2,809	25,194,166	29,216,303	4,022,137
Low	2,364	2,452	26,733,615	31,589,808	4,856,193
<b>Total</b>	<b>5,294</b>	<b>5,686</b>	<b>68,171,851</b>	<b>79,162,758</b>	<b>10,990,907</b>

\*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, 2021, the largest share was held by clients with

activities with low environmental and social impact 39.90%, then exposures to clients with activities with medium impact participate with 36.91%, activities with high impact participate 21.48% and activities with high risk category A participate with 1.71%.

### **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 Halkbank a.d. Belgrade 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 Halkbank a.d. Belgrade 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. BEOGRAD



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Financial Management and Budgeting Division  
Aleksandar Mijailović



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Member of Executive Board  
Dušica Erić



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President of Executive Board  
Kenan Bozkurt