



**ANNUAL OPERATING
REPORT**

2020

PEOPLE

BEYOND ALL

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I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

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

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

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

2. ORGANISATION OF OPERATIONS

Halkbank a.d. Beograd is a universal bank, which offers all types of banking products and services to corporate clients, entrepreneurs and retail clients. The Bank encourages and finances growth and development of the domestic economy, but is also a safe place for savings deposits of all clients. The Bank's

primary goal is to create products that will completely satisfy all customers' expectations.

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

Halkbank a.d. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 28 branches, 7 sub-branches and 1 cash desk. As at 31st December 2020, 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 7 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin and Tutin.



> Headquarters in Belgrade

3. BASIC PERFORMANCE RATIOS

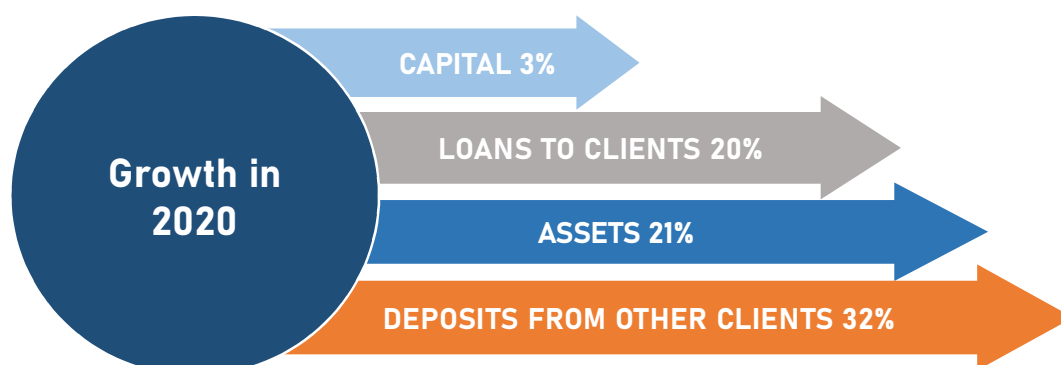
(in RSD thousand)

Income Statement	31.12.2019	31.12.2020	Revised plan 2020	Plan realization
Net interest income	2,104,276	2,192,546	2,198,703	100%
Net fee and commission income	771,359	774,055	781,892	99%
Net income/(losses) on impairment of financial assets	-214,832	-294,510	-188,124	157%
Operating expenses	2,220,922	2,285,895	2,329,214	98%
Net profit before tax	472,836	529,706	587,889	90%
Balance Sheet	31.12.2019	31.12.2020	Revised plan 2020	Plan realization
Loans to clients*	45,786,729	55,099,508	56,791,237	85%
Deposits from other clients*	41,370,483	54,515,216	51,852,868	125%
Capital	12,098,719	12,488,546	12,482,432	102%
Total assets	69,993,543	85,015,897	82,306,140	122%
Key Performance Indicators (KPI)	31.12.2019	31.12.2020	Revised plan 2020	
Costs to Income Ratio (CIR)**	75.67%	75.46%	77.29%	
Non-interest income to Operating costs Ratio	36.51%	36.14%	34.98%	
Capital Adequacy Ratio (CAR)	24.22%	21.18%	19.00%	
ROA	0.75%	0.70%	0.77%	
ROE	4.10%	4.30%	4.78%	
NIM	4.33%	3.66%	3.58%	

All financial projections for 2020 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 31.12.2020 for balance sheet positions and middle exchange rate RSD/EUR for 2020 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, cost of provisions for liabilities have been excluded from the 'Other expenses' position in the statutory statement. Income from the 'Other income' position, with the exception of Reversal of provisions for liabilities, have been included within revenues along with net interest and fee income.



II FINANCIAL POSITION AND OPERATING RESULTS

1. MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

Economic activity

Serbia, like all other economies, was in crisis during 2020, but achieved better results than most European countries. According to data from the NBS, the GDP of the Republic of Serbia in 2020 recorded a decline of -1.0%, which is significantly less than expected in CEE (about -5%) and in the entire EU (about -7.5%). The reason for the smaller decline than other European countries is due to the facts that Serbia entered a pandemic with a relatively high growth rate, high share of existential products in the economy, but also due to a strong and non-selective fiscal stimulus during the crisis. It is estimated that the decline did not come from the tradable sectors (agriculture, industry), but from the part of the service sectors most severely affected by the pandemic (tourism, catering and transport), while construction recorded a minimal decline.

Real GDP growth rate (%)



Source: NBS

Negative economic trends, aid packages and higher investments in the health system, have led to a deficit of the national budget in 2020 in the amount of RSD 459,1 billion. As a result, the public debt of Serbia in relation to the gross domestic product increased, from 52% at the end of 2019 to 56.8%, as it was at the end 2020.

The total foreign trade of Serbia in 2020 amounts to EUR 40 billion, which is a decrease of 3.4% compared to 2019. Goods worth EUR 17 billion were exported, which is a decrease of 2.8%, while imports were worth EUR 22.9 billion, which is a decrease of 3.8% compared to 2019. The deficit is EUR 5.9 billion, which is a decrease of 6.8% compared to 2019.

Inflation

Inflation in Serbia has remained firmly under control, as it has in recent years. An important factor in low and stable inflation was and remains the relative stability of the exchange rate, as well as the anchoring of inflation expectations of the financial sector and the economy, which confirms the credibility of monetary policy. During 2020, the growth of consumer prices, cumulatively, amounted to 1.3%. The highest monthly growth of 0.6% was recorded in January, February and June. On the other hand, the largest monthly decline of 0.5% was recorded in September.

Consumer prices trends in Serbia during 2020



Source: Statistical Office of the Republic of Serbia

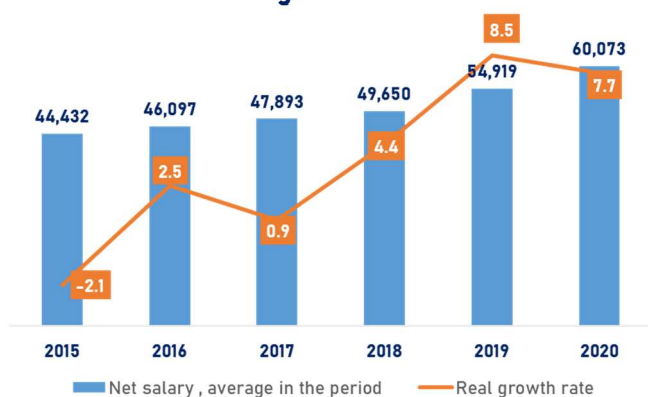
In the next year, inflation is expected to remain low and stable and to be below the 3% target throughout the year.

Labor market

Despite the challenges of the pandemic, data from the labor market confirm the importance of the economic measures packages, thanks to which favorable trends have continued. According to the Labor Force Survey, unemployment in 2020 was 9%, which is a decrease compared to 2019 by 1.4 percentage points.

The average net salary continued to grow and in 2020 amounted to RSD 60,073 (EUR 511), achieving a real increase of 7.7% compared to the previous year. In order to further recover domestic demand and preserve the living standards of the population, the Government of the Republic of Serbia in September 2020 decided to increase the minimum wage from January 1, 2021, from 172.54 dinars per hour to 183.93 dinars per hour, which means that the average minimum wage in the next year will be higher by 6.6% (i.e. about 2 thousand dinars) than in 2020.

Movement of average monthly net salary and real growth rates

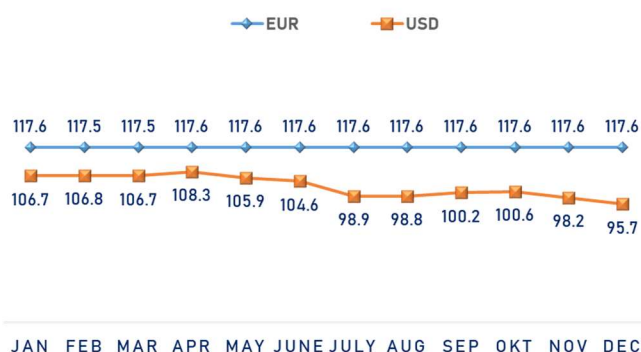


Source: Ministry of Finance

Exchange rate

Despite the depreciation pressures, which were present as a consequence of the pandemic since February 2020, the stable movement of the dinar against the euro continued during 2020. Hence, its value was almost unchanged during the year. On the other hand, due to the weakening of the dollar against the euro, the dinar strengthened against the dollar in 2020 by 8.82%.

FX trend during 2020



Source: NBS

Interest rates

During 2020, the NBS Executive Board lowered the value of the key policy rate on four occasions, in March, April, June and December. The value of the key policy rate was reduced by 125 basis points, i.e. from 2.25% to 1.00%.

Fluctuation of the National Bank Key Policy Rate during 2020



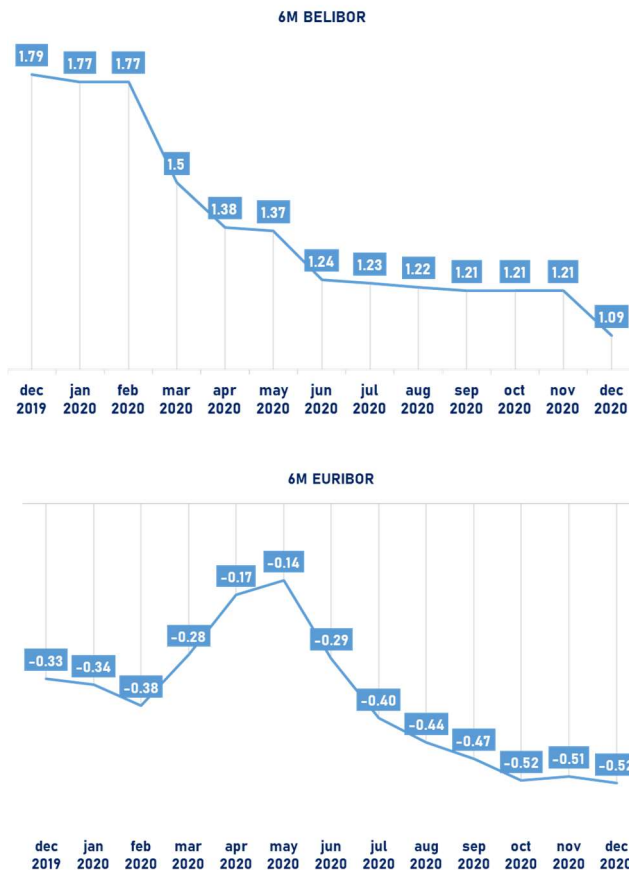
Through the reduction of the key policy rate, the expansionary monetary policy continued with the ultimate goal of reducing the negative effects of the Covid-19 pandemic on economic activity. By organizing additional repo auctions for the purchase of securities and swap auctions for the purchase of foreign currency, dinar and foreign currency liquidity was increased.

The reduction of the key policy rate, together with the effects of the moratorium, measures to stimulate sustainable retail lending, as well as the granting of loans to micro, small and medium enterprises and entrepreneurs from the guarantee scheme, enabled double-digit

growth in lending activity year on year. Given that the payment of potentially bad loans is delayed, the true picture of the quality of loans will be clear during 2021.

The monetary expansion of the NBS, but also of other central banks, influenced the fact that interest rates in Serbia were low and stable.

Fluctuation of the interest rates on the financial markets



Credit rating

The report of the rating agency Standard & Poor's from December 2020, states that the credit rating of Serbia is at the level of BB +, with stable prospects for its further improvement. This is a result of the fact that Serbia entered the crisis caused by the pandemic with significantly better overall economic indicators. In their reports from September 2020, the rating agencies Moody's and Fitch confirmed the rating of the credit rating of the Republic of Serbia at the level of Ba3, i.e. BB +, keeping the positive prospects for its further increase.

Banking sector

At the end of the third quarter of 2020, 26 banks operated on the Serbian banking market with an organizational network of 1,576 business units, employing 22,858 people.

The total assets of the Serbian banking sector amounted to RSD 4.510 billion, which is an increase of 10.42% during the first nine months of 2020. In the same period, banks' capital increased by 1.59% and amounted to RSD 717 billion.

The first 10 banks had a share of 80% in the total assets, in deposits 80.1%, and in loans 77.8%. As in the previous period, Banca Intesa is the leading bank according to the presented criteria with a share in the total banking sector's assets of 15.24%. Unicredit bank and Komercijalna bank also have a market share above 10%. Halkbank a.d. Belgrade in the first nine months of 2020, recorded an increase in market share in all significant balance sheet positions. The participation of Halkbank a.d. Belgrade in the total banking sector's assets is 1.79% and the Bank is on the 16th place by the size total assets. In terms of deposits, the Bank is on the 16th place in the banking sector with a share of 1.83%, while in terms of loans, it is also on the 16th place with a share of 2.07%.

The trend of market enlargement is expected to continue in 2020. The most significant transaction was the long-awaited takeover of Komercijalna Banka by the Slovenian banking group NLB. With this transaction, NLB Group achieves a market share of over 12% and becomes one of the top 5 banks in the Serbian market.

As of the third quarter of 2020, the banking sector achieved a pre-tax result of RSD 43.43 billion, which is -19.7% less than in the same period last year. 19 banks operated with a positive result with a total profit of RSD 44.65 billion, while 7 banks operated with a loss in the total amount of RSD 1.2 billion. Lower profit compared to the previous year are primarily due to higher impairment costs, which reached 14.7 billion dinars at the end of September. According to the realized profit during the first three quarters of 2020 in the amount of RSD

447,421 thousand, Halkbank a.d. Belgrade took 15th place.

The reduced profitability of the banking sector during the first nine months of 2020 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 8.14% while return on assets (ROA) was 1.35%.

Non-performing loans (NPL ratio) amounted to 3.4% at the end of September 2020, while NPL coverage ratio was 62.4%.

The banking sector of Serbia was adequately capitalized with an average capital adequacy ratio of 22.4% at the end of the third quarter, which is significantly above the prescribed minimum of 8%. Capital adequacy ratio of Halkbank a.d. Belgrade was 21.39% at the end of September (December 2020 21.18%).

2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The targets set out in the Operating Policy for 2020 were implemented in the first nine months of 2020 through the activities listed below, with reference to the activities related to mitigate the negative effects caused by the Covid-19 pandemic.

1. In 2020, the Bank relocated branch Kalenić to the better and more appropriate location Crveni Krst in Belgrade and opened new sub-branch in Zrenjanin.

2. Realized value of Average Liquidity Ratio and its target for 2020 is shown in following table:

Indicators	2020	Plan 2020 (minimum)
The average liquidity ratio	1.92	1.2
The average narrow liquidity ratio	1.71	0.9
The average ratio of liquid assets	28.23%	20%

Due to the situation caused by the Covid-19, the Bank has identified environmental risks may have a direct impact on the deterioration of liquidity. In accordance with that, all necessary activities were taken in a timely manner in order to ensure the prevention of liquidity at the level it was at before the situation arose. It is estimated that dinar positions will be the most volatile on the interbank market and in the Bank itself, so the Bank concentrated activities on providing additional liquid assets in that currency. This was achieved by concluding REPO and SWAP agreements with the National Bank of Serbia, in the proportion that corresponded to the current position of the Bank. At the same time, the Bank conducted an active deposit management policy, and in the same period a part of most expensive deposits was released where due to significant amounts, there was a high concentration risk as well. In addition, despite the crisis, the Bank managed to raise its deposit base by constantly deepening cooperation with existing clients, finding new one and concluding new contracts. The implementation of these activities resulted in a

stable liquid position of the Bank and relaxation in the part of interest expenses on deposits.

3. In 2020, the Bank achieved positive financial result in the amount of RSD 529,706 thousand. Realized values regarding this goal are shown in the following table:

Indicators	(in RSD thousand)		
	31.12.2020	Revised plan 2020	Plan realization
Net interest and fees income	2,966,601	2,980,595	99.53%
Operating costs	2,285,895	2,329,214	98.14%
Profit	529,706	587,889	90.10%

4. There were no emission of share capital in the first nine months of 2020. The main assumption for preparation of Operating Policy for 2020 was capital addition in the amount of EUR 30 million in the first half of 2020, necessary for financing planned investments in new Headquarters building, as well as implementation of new core banking system.

As planned capital increase of EUR 30 million was not realized in 2020, the Bank has done a revision of the budget, and projections of key financial indicators have been presented in this Operating report.

Regarding this matter, the Bank has postponed the planned investments, which are transferred to the budget for 2021.

5. In the first quarter of 2020, innovative and technologically advanced model of payment cards – “TESLA” project is completed and launched. The Bank was expecting and achieved positive effects from this innovative project and this should drive increase in non-interest income in the future as well as in number of credit and active clients through a wide range of products that are available to the existing and new clients.

6. In March 2020, the Bank worked intensively on undertaking all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic. In March 2020 National Bank of Serbia brought Decision on temporary measures to preserve the stability of the financial system, based on which Halkbank ad Belgrade offered all its clients (individuals, agro, entrepreneurs and companies) a delay in repayment of obligations – the first Moratorium valid until 30th of June 2020. Pursuant to the instructions of the NBS, during the state of emergency, the Bank does not charge default interest on overdue and unsettled receivables and does not initiate enforcement proceedings. The duration of the moratorium cannot be shorter than 90 days, i.e. the duration of the state of emergency. After the termination of the Moratorium, it was prescribed that debtors will continue to repay the loan, so that the loan repayment period is extended by 3 months. In accordance with the instructions of the NBS, regular interest is calculated on outstanding balance, excluding loans granted to legal entities, for which the Bank may calculate regular interest and on the amount of principal due during the moratorium. Regular interest calculated during the moratorium period is added to the main debt and new repayment plan is generated.

Additionally, at the end of July 2020, National Bank of Serbia brought new Decision on temporary measures for banks to mitigate the consequences of the COVID-19 pandemic, in order to preserve the stability of the financial system for the purpose of preserving the stability of the financial system in the Republic of Serbia, due to the possibility that borrowers might face difficulties in the repayment of their obligations. The most important differences in relation to the previous decision are:

- Duration of the moratorium and extension of repayment plan – now it is two months (covering period from 1st of August until 30th of September 2020, including also remaining due receivables from July 2020 for clients who accepted moratorium). According to the previous decision it was at least 90 days;
- In terms of interest – calculated interest is evenly distributed over the period of

repayment of loans and other bank products and is not attributed to the principal of the debt.

In order to maintain a sense of the regulations adopted in March 2020, as well as to meet the needs of clients, the National Bank of Serbia issued a new instruction in mid-September 2020. This instruction refers to the Decision on temporary measures for banks to mitigate the consequences of the COVID-19 pandemic, in order to preserve the stability of the financial system and orders that, upon termination of the additional moratorium, regular interest calculated during the first moratorium has to be evenly distributed over the loan repayment period without attribution to the principal of the debt.

Having in mind the complexity of the pandemic's fallout on households and businesses, the NBS established that there is room for taking additional measures and at December 15th 2020 adopted the Decision on Temporary Measures for Banks to Enable Adequate Credit Risk Management amid COVID-19 Pandemic. By this Decision, the NBS prescribes the measures and activities to be applied by banks in order to ensure adequate credit risk management, which implies timely identification of debtors faced with potential difficulties and taking of appropriate steps. For this reason, the NBS prescribes an obligation for banks to approve debt repayment facilities to debtors who due to the conditions caused by the COVID-19 pandemic have or may have difficulties in the repayment of liabilities, at their request.

The facilities envisaged by the above Decision involve rescheduling and refinancing of loans, as well as a six-month grace period and appropriate extension of repayment term so that the debtor's monthly liabilities are not higher than those envisaged by the repayment schedule prior to the approval of facilities. Interest is calculated during the grace period, but it is up to the debtor to decide, in the request, whether it will pay interest during the grace period or after its expiry.

The Bank did not have in its portfolio loans approved in accordance with the provisions of this Decision as of December 31st 2020.

3. BALANCE SHEET

3.1 Assets

As of December 31st 2020, the Bank's total assets amounted to RSD 85,015,897 thousand and accounted increase of 21.46% compared to the end of 2019, or by RSD 15,022,354 thousand.

The main driver of this growth was lending activities, mostly induced by participation in the Guarantee Scheme for mitigating the effects of the COVID-19 pandemic, as well as proactive approach in retail segment. The growth of total loans in the observed period amounted to RSD 9,312,779 thousand (20.34%).

(in RSD thousand)

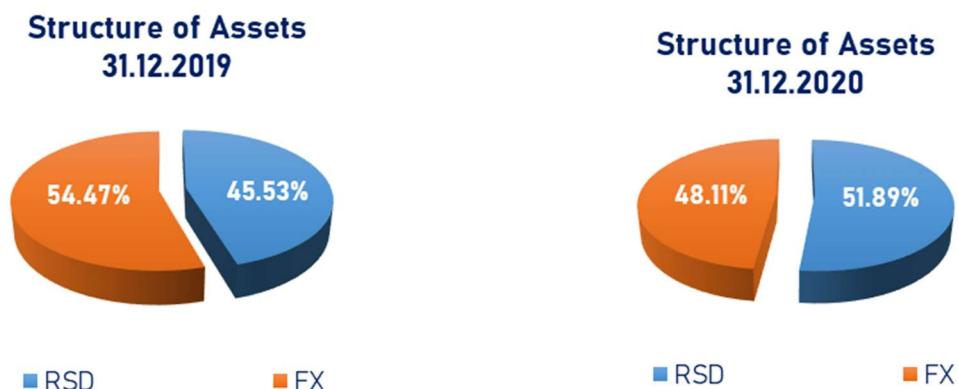
ASSETS	31.12.2019	31.12.2020	Revised plan 2020	% of change
Cash, cash equivalents and assets held with the central bank	10,013,564	13,707,004	9,594,544	36.88%
Financial assets*	10,607,350	11,120,811	10,934,959	4.84%
Loans to banks and other financial organizations**	1,453,132	2,398,662	2,704,345	65.07%
Loans to clients*	45,786,729	55,099,508	56,791,237	20.34%
Intangible assets, property, plant and equipment and investment property	1,726,263	1,822,164	1,928,315	5.56%
Other assets***	406,505	867,748	352,741	113.46%
Total assets	69,993,543	85,015,897	82,306,140	21.46%

* 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, fee 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 31.12.2019. and 31.12.2020:



3.1.1 Loans to clients

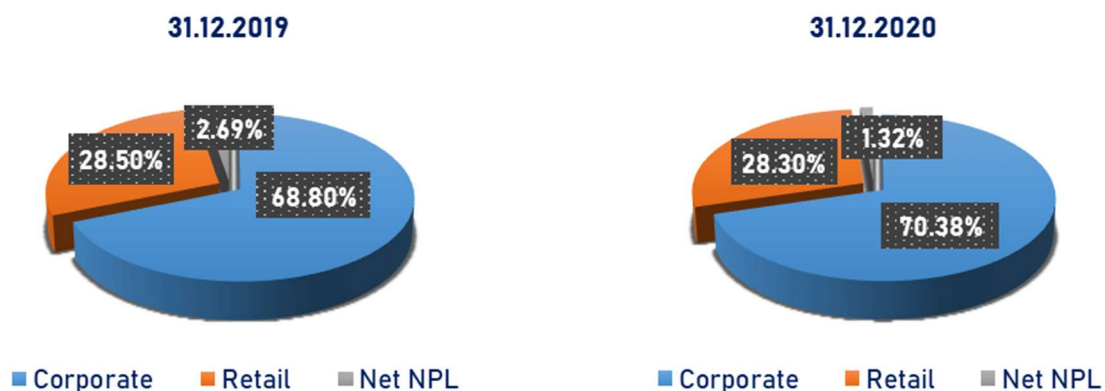
Since arriving to the Serbian market, focus of Halkbank a.d. Beograd is on the maximum satisfaction of clients, the development of innovative products and services, the improvement and digitization of the processes in order to strengthen the efficiency of operations.

The structure of position loans to clients as of December 31st 2019 and December 31st 2020 is given in the following table:

	31.12.2019	31.12.2020	(in RSD thousand) Revised plan 2020	% of change
Loans to clients - net	45,786,729	55,099,508	56,791,237	20.34%
Corporate clients without NPL	31,502,109	38,781,185	39,977,268	23.11%
Retail clients without NPL	13,051,055	15,591,032	15,873,327	19.46%
NPL (net)*	1,233,565	727,291	940,642	-41.04%

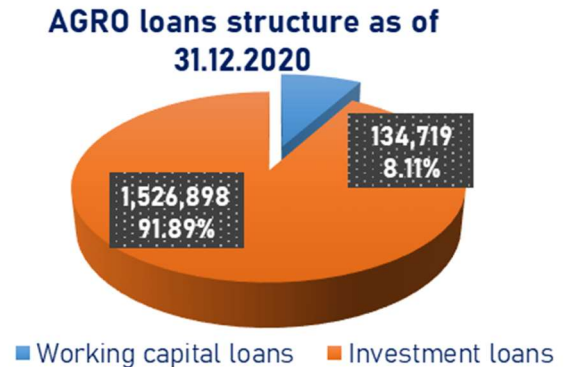
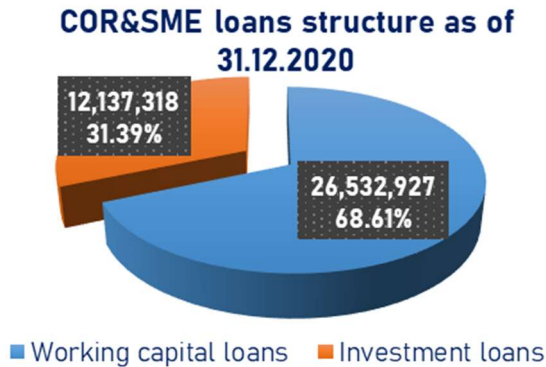
* NPL position refers to net receivables from problematic customers, without receivables for interest and fee

The Bank's net loan portfolio increased during the 2020 by 20.34%, or by RSD 9,312,779 thousand. Besides increase in net loan portfolio, compared to the end of 2019, it was recorded a decrease of the net NPL by 41.04% (collection of non-performing loans).



Gross loans – Corporate

Gross corporate loans, including gross NPL, as of December 31st 2020 amounted to RSD 40,331,861 thousand, with growth of 20.12% comparing to the end of 2019. In the following graphs, structure of these loans is presented:



The most important activities of Corporate and SME Marketing Division in 2020 were as follows:

- Bank realized EUR 165.8 million in Corporate, SME and Agro segments through Guarantee scheme for supporting of the economy, regular business activities, as well as certain programs and actions. The focus was on the Guarantee scheme for supporting of the economy, micro loans campaign for working capital loans with FX clause, RSD working capital loan campaign started in March 2020, FRK investment loans campaign in cooperation with the National Bank of Serbia, as well as lending to Agro clients.
- Intensive work on undertaking all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic. The Bank prepared procedure for application of the first and second Moratorium according to the Decision of the National Bank of Serbia, 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 intensified on a daily basis with clear instructions on measures to be taken on the basis of new regulations and state regulations.

- In 2020, the Bank participated in the Guarantee scheme for supporting of the economy. The Bank realized total of EUR 70.4 million through 874 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 foreseen for this measure is EUR 2 billion. We believe that participating in the implementation of the said program would contribute to the preservation and expansion of the portfolio of quality credit clients, would enable the placement of funds with first class collateral, as well as to 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
- 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%.

Gross loans - Retail

Gross retail loans, including gross NPL, as of December 31st 2020 amounted to RSD 15,856,607 thousand with the following structure:

(in RSD thousand)			
Loan type	31.12.2019	31.12.2020	% of change
Cash loans	7,258,433	8,626,404	18.85%
Housing loans	4,910,910	6,221,866	26.69%
Consumer loans	801,417	679,921	-15.16%
Allowed overdraft	155,579	174,220	11.98%
Other	155,415	154,196	-0.78%
Total	13,281,754	15,856,607	19.39%

Retail Marketing and ADC Division realized numerous activities during 2020 with an aim to launch new products and services, to increase portfolio and to enable normal functioning of Bank during COVID 19 crises:

- At the beginning of the year implementation of procedures and technical solutions for adjusting loan approving process to the retail clients with regulatory requests have been done. The changes in regulation primarily refer to cash loans as the most used type of loans on Serbian market and their maximum maturity (83 months).
- Innovative and technologically advanced model of payment cards – “TESLA” project is completed and launched. As a special card, the MasterCard Sticker debit card stands out with its specific characteristics – reduced dimensions that can be glued to the pendant or the back of the mobile phone and make daily fast payments easier and more accessible.
- The project of introducing credit cards in the offer is launched and the registration of a new product with the National Bank of Serbia is done. Cooperation has been established with two brands – MasterCard with the World card, with which Wallet insurance is provided as an additional benefit to customers, and Visa Gold as a prestigious credit card.
- A project of new current account packages for private individuals – Standard, Silver and Gold – has been created and launched. Within the packages themselves, several mini-projects have been realized that provide additional value for the client (Insurance – Road Assistance, Travel insurance, Call Center personal approach 24h/7).
- Also, an offer was created adapted to non-residents and their specifics arising from regulatory acts – transaction banking and credit products with indicated rights and obligations, exceptions and other important information.
- The DigitalEdge project has been launched as one of the Bank's priorities, which improved Bank's services to retail customers. The improvement is reflected in a more modern and functional payment method through e-banking and m-banking applications. The additional benefit of DigitalEdge is a web and mobile solution, for both Android and iOS users, to open an account at Halkbank via PC, mobile phone or tablet without going to the Bank. In addition to opening an account, the DigitalEdge platform also enables customers to be informed about other bank's services, while the next step is to improve the service related to digital application for loans or deposits. In the third quarter, the application was improved with the additional option of payment via QR code. In addition, the

DigitalEdge platform currently provides information to clients on other services of the Bank, while the next step is planned to improve the service related to digital loan applications or time deposits. The Bank is currently in the phase of developing the function of submitting a request for opening a current account online, i.e. without coming to the Bank.

- Intensive work on undertaking all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic: Moratoriums 1, 2 and Reliefs have been applied according to the Decision of the National Bank of Serbia; Informing clients about the terms of the Moratorium and how to apply; Organizing the smooth functioning of payment operations for clients from the population segment, especially in conditions of reduced number of

executors and limited working hours during the state of emergency, with special reference to the payment of funds from the accounts of clients who had limited movement during the state of emergency (pensioners and over 65), all in accordance with the instructions of the National Bank of Serbia.

- During 2020, several new campaigns were launched to increase demand for loans, which was reduced during the crisis caused by the COVID-19 virus. Most of the campaigns were related to cash loans, combined with new current account packages and a new SmartHALK platform for e / m banking services. In the mentioned period, 46,6 million euros were placed, 11.900 new packages of current accounts were opened and 8,754 old packages were migrated to new ones.

3.2 Liabilities

Total liabilities as of December 31st 2020 amounted to RSD 85,015,897 thousand with the following structure:

PASSIVE	(in RSD thousand)			
	31.12.2019	31.12.2020	Revised plan 2020	% of change
Deposits from banks and other financial organizations*	6,109,502	7,487,610	8,230,614	22.56%
Deposits from other clients*	41,370,483	54,515,216	51,852,868	31.77%
Funds borrowed**	8,821,223	8,159,379	7,995,454	-7.50%
Other liabilities***	1,593,616	2,365,146	1,744,773	48.41%
Total liabilities	57,894,824	72,527,351	69,823,708	25.27%
Share capital	8,972,603	8,972,603	8,972,603	0.00%
Current period profit	472,836	529,706	587,901	12.03%
Undistributed profit from previous years	0	682,330	471,732	-
Reserves	2,653,280	2,303,907	2,450,195	-13.17%
Total capital	12,098,719	12,488,546	12,482,432	3.22%
Total passive	69,993,543	85,015,897	82,306,140	21.46%

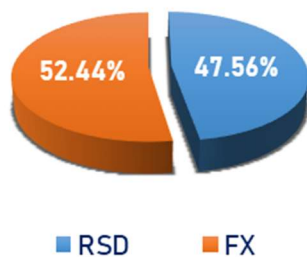
*The positions "Deposits from other clients" and "Deposits from banks and other financial organizations" differ from positions "Deposits and other liabilities from other clients" and "Deposits and other liabilities from banks, other financial institutions and central bank" presented in the official Balance sheet form for the amount of liabilities based on interest, fees, accrued liabilities for accrued interest and other financial obligations towards clients, shown in the „Other liabilities" position. Position "Other liabilities" includes position "Provisions" from the official Balance sheet form.

** The position "Funds borrowed" is presented without accrued interest liabilities that are presented in "Other liabilities" in this table.

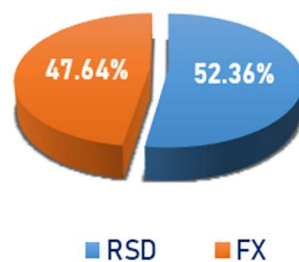
*** The position "Other liabilities" includes position "Provisions" from the official Balance sheet form.

The following graphs present the currency structure of liabilities as at 31.12.2019 and 31.12.2020:

**Structure of liabilities
31.12.2019**



**Structure of liabilities
31.12.2020**



3.2.1 Deposits from banks, other financial organizations and central bank

The structure of deposits from banks, other financial organizations and central bank and comparative analysis as of December 31st 2019 and December 31st 2020 is presented in the following table:

(in RSD thousand)

Deposits from banks and other financial organizations	31.12.2019	31.12.2020	% of change
Transaction deposits	224,075	123,155	-45.04%
Other deposits	5,885,427	7,364,455	25.13%
Total	6,109,502	7,487,610	22.56%

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

3.2.2 Deposits from other clients

The structure of deposits from other clients and comparative analysis by segments as of December 31st 2019 and December 31st 2020 is presented in the following tables and graphs:

(in RSD thousand)

Depoziti drugih klijenata	31.12.2019	31.12.2020	Revised plan 2020	% of change
Transaction deposits	15,471,872	24,653,761	22,692,979	59.35%
Other deposits	25,898,611	29,861,455	29,159,890	15.30%
Total	41,370,483	54,515,216	51,852,868	31.77%

Total increase of deposits from other clients in 2020 amounted to 31.77%.

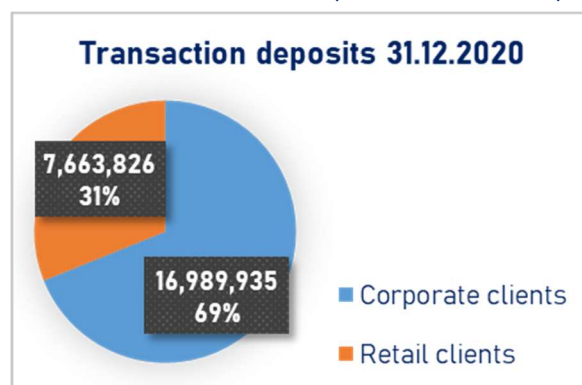
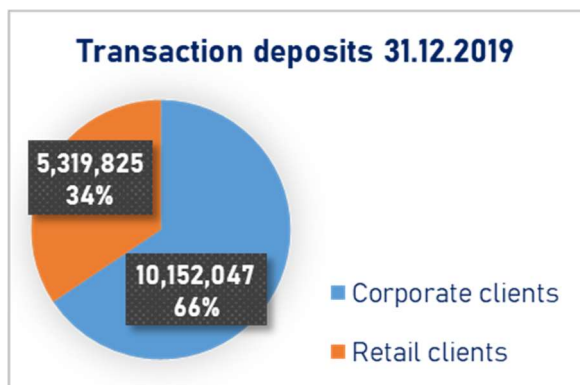
(in RSD thousand)

Deposits from other clients	31.12.2019	31.12.2020	Revised plan 2020	% of change
Corporate clients	21,781,545	31,406,924	28,924,729	44.19%
Retail clients	19,588,938	23,108,292	22,928,139	17.97%
Total	41,370,483	54,515,216	51,852,868	31.77%

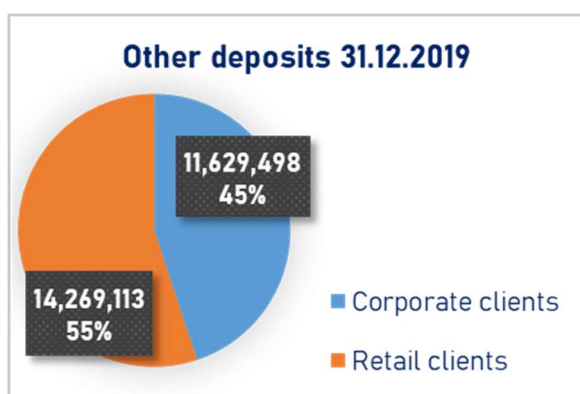
By constant monitoring of market trends, individual and proactive approach to clients, the Bank increased the level of deposits from corporate clients by 44.19%, and the level of deposits from retail clients by 17.97%.

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

(in RSD thousand)



(in RSD thousand)



Funds borrowed

(in RSD thousand)

Borrowed loans in foreign currency	31.12.2019	31.12.2020	% of change
- EIB	5,950,863	5,303,581	-10.88%
- Demir-Halk Bank (Nederland) N.V.	587,964	999,432	69.98%
- EAR long-term revolving line	841,385	837,726	-0.43%
- European Fund for Southeast Europe	839,949	503,915	-40.01%
- GGF	553,378	484,154	-12.51%
- Government of Republic of Italy	47,684	30,571	-35.89%
Total	8,821,223	8,159,379	-7.50%

In 2020, the Bank paid the principle of long-term loans to IFIs on a regular basis in the amount of EUR 17,204 thousand. In the same period, the Bank withdrew EUR 11,583 thousand of IFI's funds.

3.2.3 Equity

The capital of the Bank as of December 31st 2020 amounted to RSD 12,488,546 thousand and comprised of the following:

(in RSD thousand)

Equity	31.12.2019	31.12.2020	% of change
Share capital – ordinary shares	5,658,940	5,658,940	0.00%
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	2,712,323	0.00%
Revaluation reserves	926,753	577,380	-37.70%
Reserves from profit	1,726,527	1,726,527	0.00%
Undistributed profit from previous years	-	682,330	-
Profit of the current year	472,836	529,706	12.03%
Total	12,098,719	12,488,546	3.22%

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

Information on shares	31.12.2019	31.12.2020
Number of shareholders	1	1
Number of shares	626,028	626,028
Nominal value per share in RSD	10,000	10,000
Net book value per share in RSD	19,326.16	19,948.86

4. OFF-BALANCE SHEET ITEMS

During 2020, the Bank issued performance and payment guarantees and letters of credit for its customers. The structure of off-balance sheet items as of December 31st 2019 and December 31st 2020 is presented in the following table:

(in RSD thousand)			
Off-balance sheet items	31.12.2019	31.12.2020	% of change
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	13,492,419	17,346,665	28.57%
Operations for and on behalf of third parties	265,345	257,727	-2.87%
Derivatives (SWAP)	943,938	470,321	-50.17%
Other off-balance sheet items	65,334,154	79,792,616	22.13%
Total	80,035,856	97,867,329	22.28%

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as of December 31st 2019 and December 31st 2020:

(in RSD thousand)			
Garancije, avali, akcepti i preuzete neopozive obaveze	31.12.2019	31.12.2020	% of change
Performance guarantees	8,411,994	11,579,939	37.66%
Payment guarantees	2,854,307	3,153,131	10.47%
Unused limits which cannot be revoked	1,574,212	1,906,000	21.08%
Issued foreign currency letters of credit with Banks' confirmation	617,362	676,086	9.51%
Issued uncovered letters of credit	34,544	31,509	-8.79%
Total	13,492,419	17,346,665	28.57%

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

(in RSD thousand)			
Other off-balance sheet items	31.12.2019	31.12.2020	% of change
Received fixed assets (buildings, cars, land etc.) as collateral in favor of the Bank	38,301,484	42,306,867	10.46%
Commitments for framework loans and facilities	8,687,283	10,813,711	24.48%
Calculated suspended interest	4,969,015	5,076,233	2.16%
Financial assets pledged as collateral	2,260,870	1,200,000	-46.92%
Other off-balance sheet items	11,115,503	20,395,805	83.49%
Total	65,334,155	79,792,616	22.13%

5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Income Statement for the period from January 1st to December 31st 2020 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank finished its operation in 2020 with a profit of RSD 529,706 thousand.

(in RSD thousand)

Income Statement	31.12.2019	31.12.2020	Abs change	% of change	Revised plan 2020
Interest income	2,528,261	2,714,093	185,832	7.35%	2,730,154
Interest expense	423,985	521,547	97,562	23.01%	531,451
Net interest income	2,104,276	2,192,546	88,270	4.19%	2,198,703
Fee and commission income	929,972	981,159	51,187	5.50%	993,532
Fee and commission expense	158,613	207,104	48,491	30.57%	211,640
Net fee and commission income	771,359	774,055	2,696	0.35%	781,892
Net trading income	972	95,413	94,441	9716.15%	91,711
Other operating income	31,983	48,097	16,114	50.38%	32,922
Net income/(losses) on impairment of financial assets	-214,832	-294,510	-79,678	37.09%	-188,124
Total net operating income	2,693,758	2,815,601	121,843	4.52%	2,917,103
Salaries, salary compensation and other personal expenses	906,313	958,415	52,102	5.75%	967,077
Depreciation costs	362,928	404,384	41,456	11.42%	418,577
Other expenses	951,681	923,096	-28,585	-3.00%	943,561
Total operating expenses	2,220,922	2,285,895	64,973	2.93%	2,329,214
NET PROFIT BEFORE TAX	472,836	529,706	56,870	12.03%	587,889

*The position "Other operating income" includes position "Other operating income" and "Other income" from official Statement of profit and loss.

In 2020, the Bank increased its net interest income by 4.19%, or by RSD 88,270 thousand, comparing to the same period last year. Net income from fees and commission is approximately at the same level as it was in 2019, mainly due to increase in Fee and commission expenses after starting Tesla project. With increase in volume of card transactions Bank will cover these expenses and will make space for significant increase in profit from this line of business. Total operating expenses are higher for 2.93%, or by RSD 64,973 thousand comparing to the same period last year.

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

(in RSD thousand)

Interest income	31.12.2019	31.12.2020	% of change
Corporate clients	1,221,065	1,382,840	13.25%
Retail clients	906,912	918,605	1.29%
Securities	338,215	393,195	16.26%
Other	62,069	19,453	-68.66%
Total	2,528,261	2,714,093	7.35%

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

(in RSD thousand)

Fee and commission income	31.12.2019	31.12.2020	% of change
Fees from payment operations	532,061	551,799	3.71%
Fees from guarantees	146,193	172,095	17.72%
Fees from FX changes	110,150	101,803	-7.58%
Fees from payment cards	59,944	100,907	68.34%
Fees from loan processing	48,415	37,659	-22.22%
Fees from SWAP	23,848	4,983	-79.11%
Other fees	9,361	11,913	27.26%
Total	929,972	981,159	5.50%

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

(in RSD thousand)

Interest expense	31.12.2019	31.12.2020	% of change
Deposits – corporate	161,119	198,269	23.06%
Deposits – retail	112,612	137,474	22.08%
Banks deposits	52,711	92,278	75.06%
Borrowings IFI's	87,005	83,256	-4.31%
IFRS 16	10,538	10,270	-2.54%
Total	423,985	521,547	23.01%

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

(in RSD thousand)

Fee and commission expenses	31.12.2019	31.12.2020	% of change
Payment operations	97,328	105,018	7.90%
Fees from payment cards	46,350	88,941	91.89%
Credit bureau and other fees	14,935	13,145	-11.99%
Total	158,613	207,104	30.57%

6. CASH FLOWS

Cash flows from operating activities during 2019 and 2020 are presented in the table below:

(in RSD thousand)			
Cash inflows from operating activities	I - XII 2019	I - XII 2020	Change
Interest	2,406,095	2,336,690	-69,405
Fees	943,344	986,193	42,849
Other operating income	12,055	13,345	1,290
Dividend and share in profit	2,152	0	-2,152
Total cash inflows	3,363,646	3,336,228	-27,418
Cash outflows from operating activities			
Interest	394,245	461,902	67,657
Fees	155,653	204,341	48,688
Salaries	892,133	1,017,402	125,269
Tax and contribution	184,911	205,930	21,019
Other operating expenses	774,999	722,981	-52,018
Total cash outflows	2,401,941	2,612,556	210,615
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities	961,705	723,672	-238,033

Cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2020 decreased for RSD 27,418 thousand comparing to the same period in 2019.

Cash outflows from operating activities before increase/decrease in financial assets or financial liabilities increased for RSD 210,615 thousand comparing to the same period in 2019.

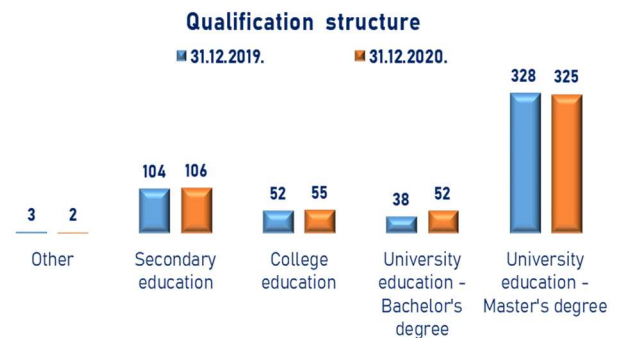
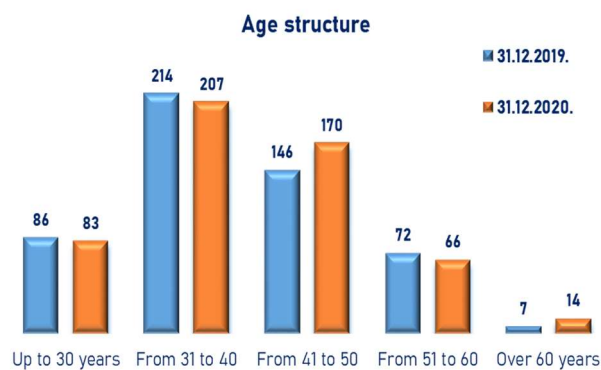
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2020 amounted to RSD 723,672 thousand, which is decrease of RSD 238,033 thousand comparing to same period in 2019.

7. HUMAN RESOURCES

Employees present one of the most important resources on which the Bank's overall activities are based. At the end of 2020, the Bank had 540 employees and the following structure:

Number of employees	31.12.2019	31.12.2020	Revised plan 2020
Headquarter	219	228	235
Branches	306	312	315
Total	525	540	550

The following graphs show the qualification and age structure of employees as of December 31st 2019 and December 31st 2020:



Expenses for salaries, salary compensation and other personal expenses in 2020 amounted to RSD 958,415 thousand and accounts for 99.1% of revised budget for 2020.

In the qualification structure of employees at the end of 2020, the share of employees with higher education was 69.8%, while the participation of younger than 40 years was 53.7%. 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.

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. In addition, the number of employees staying at the Bank's premises has been reduced.

8. INVESTMENT PLAN

During 2020 total investments in fixed assets, investment property and intangible investments amounted to RSD 688,957 thousand.

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

(in RSD thousand)

Investments*	Buildings	Equipment	Investment property	Intangible investments	Rents in IFRS 16 scope	Total	Revised plan for 2020
Balance 31.12.2019	414,630	382,091	137,845	270,726	520,971	1,726,263	1,726,263
Total increase:	553	334,675	0	113,442	240,287	688,957	517,608
IT	0	287,375	0	113,442	0	400,817	457,505
Adaption of business premises	553	24,053	0	0	0	24,606	25,535
Other	0	23,247	0	0	0	23,247	34,569
IFRS 16 – rents (building and cars)	0	0	0	0	240,287	240,287	103,235
Total decrease:	202,812	135,469	4,539	62,986	187,250	593,056	418,577
Depreciation	16,261	133,348	4,539	62,986	0	217,134	230,452
Depreciation – IFRS 16	0	0	0	0	187,250	187,250	188,124
Sell	186,551	1,742	0	0	0	188,293	0
Disposal and retirement	0	379	0	0	0	379	0
FX effects	0	0	0	0	0	0	-103,021
Balance 31.12.2020	212,371	581,297	133,306	321,182	574,008	1,822,164	1,928,315

* Presented in net amount

During 2020, the Bank's investments related to relocation of branch Kalenić to the better and more appropriate location Crveni Krst in Belgrade, opening new sub-branch in Zrenjanin, purchase of ATMs and POS terminals, renewal of security and IT user equipment, as well as additional investment in licenses for finishing TESLA project.

Of the total increase, RSD 240.287 thousand is caused by IFRS 16.

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

As of December 31st of 2020, 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 st 2020
Regulatory Capital	Min 10,000,000 €	91,862,284 €
Capital adequacy ratio	min 8% (SREP 16.33%)	21.18%
Foreign exchange risk ratio	max 20%	0.83%
Liquidity ratio	Min 1	1.89
Narrow liquidity ratio	Min 0.7	1.68
Liquidity coverage ratio	Min 100%	230.16%
Exposure to one person or group of related persons	max 25%	14.86%
Sum of large exposures	max 400%	50.92%
Investment in non-financial sector	max 10%	0%
Investments in fixed assets and investment property	max 60%	13.90%

Business policy for 2020 as one of the main goals in the risk management process defines maintenance of capital adequacy ratio above 23%, taking into account planned capital increase in the amount of EUR 30 million. Since capital increase was not realized in 2020, as of December 31st 2020, calculated capital adequacy ratio was at the level of 21.18%, 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 11th 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 30th 2020, the ratio of the Capital and Eligible Liabilities to total liabilities of the Bank was 20.67%, which is significantly above the defined limit. Based on the portfolio structure, it is expected that defined ratio will be on the similar level as at December 31st 2020.

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 certain financial covenants until the final repayment of the loans. As of December 31st of 2020, the Bank is aligned with all indicators.

III INVESTMENT FOR THE PURPOSE OF ENVIRONMENTAL PROTECTION

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

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

(in RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase/decrease
	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	
High – Exclusion List	0	0	0	0	0
High – Category A	10	14	465,438	513,623	48,185
High	342	382	11,807,138	15,730,447	3,923,309
Medium	1,948	2,534	21,023,659	25,194,166	4,170,507
Low	2,296	2,364	22,443,645	26,733,615	4,289,970
Total	4,596	5,294	55,739,880	68,171,851	12,431,971

**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, 2020, the largest share was held by clients with activities with low environmental and social impact 39.22%, then exposures to clients with activities

with medium impact participate with 36.96%, activities with high impact participate 23.07% and activities with high risk category A participate with 0.75%.

IV SIGNIFICANT EVENTS AFTER THE END OF BUSINESS YEAR

After the reporting period, there have been no events which had materially impact on financial statements of the Bank for the year ended 31st December 2020.

V ANTICIPATED FUTURE DEVELOPMENT

The business policy and strategy for the period from 2020 to 2024 defined the basic business goals and main guidelines for the development of Halkbank a.d. Belgrade on the Serbian market.

By increasing share capital in 2018 in the amount of EUR 40 million, as well as budgeted increase in capital in 2021, the Bank achieved and will have an excellent base for rapid growth and business development in the future.

As one of the main goals it is planned the expansion of the branch network to more than 50 branches, with a high potential for raising market share in Belgrade and other regions where the Bank does not currently have branches. The Bank will be oriented towards SME clients, with a strong focus on the retail segment. It is planned that main Balance Sheet and Income Statement positions grow faster than expected growth of the banking sector.

All listed activities will lead to increase in market share in the banking sector to 3%, based on the size of total assets, with sustainable growth, good liquidity and capital adequacy position.

VI RESEARCH AND DEVELOPMENT ACTIVITIES

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

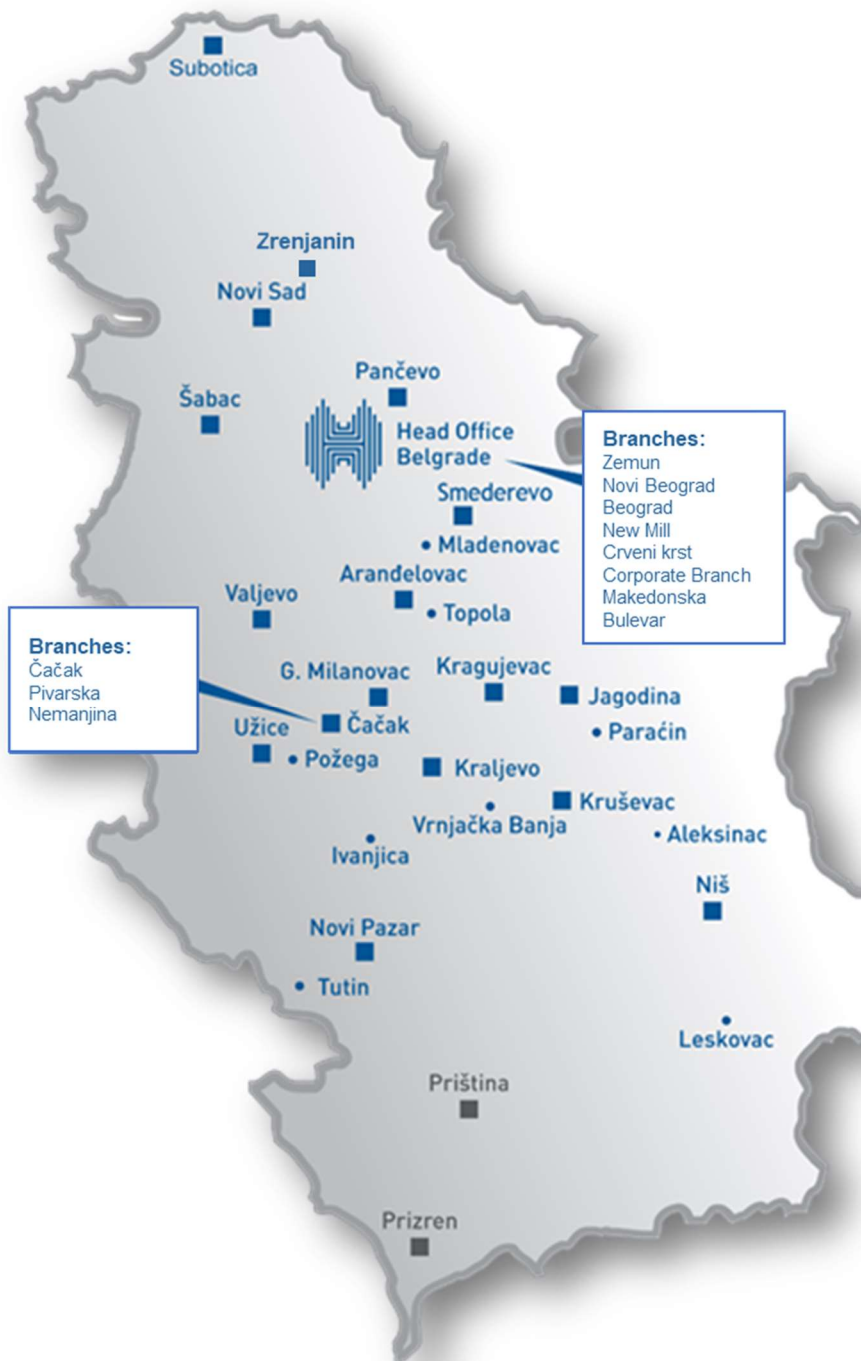
The Marketing Division constantly develops new products and services, and based on the information and conclusions that it obtains through market research activities and customers' needs, strives to develop and offer modified existing products, as well as completely new products and services.

VII INFORMATION ON PURCHASE OF OWN SHARES

The Bank did not acquire its own shares during 2020.

VIII EXISTENCE OF AFFILIATES

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, 7 sub-branches and 1 cash desk. As at 31st December 2020, 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, Arandjelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar and Subotica and 7 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin and Tutin.



IX RISK MANAGEMENT ADEQUACY

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

Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of loan loss reserves pursuant to the NBS regulations and 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 31.12.19	% of the share in gross risk-weighted assets		Classified amount as at 31.12.20	% of the share in gross risk-weighted assets	
A	28,378,670	40.03%	70.67%	37,463,638	42.94%	71.36%
B	21,716,803	30.64%		24,798,135	28.42%	
V	13,790,931	19.46%	19.46%	15,098,591	17.31%	17.31%
G	2,946,405	4.16%	9.87%	6,680,554	7.66%	11.33%
D	4,049,661	5.71%		3,203,943	3.67%	
Ukupno	70,882,353	100.00%		87,244,861	100.00%	

The total assets that are classified are decreased as of December 31st 2020 compared to the end of 2019 by 23.08%.

Compared to the end of 2019, there was a certain improvement in structure of the Bank's portfolio, which was caused by increase of share of receivables classified in A and B category by 0.69 percentage points and decrease of share of receivables classified in category V by 2.15 percentage points. Share of receivables classified in G and D category increased by 1.46 p.p. The increase in exposures classified in category G was equally influenced by the approval of placements classified in category G, and reclassification of clients due to deterioration of financial indicators. This increase occurred in the last quarter of 2020, which in the last quarter increased the share of placements classified in category G by 2.90 p.p., while the share of placements classified in category D decreased by 0.73 p.p.

Portfolio quality as of December 31st 2020 is in medium risk level, taking into account that less than 75% of asset is classified in categories A and B.

Collection and coverage of NPLs

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

	(in RSD thousand)		
	31.12.2019	30.12.2020	Change
NPL portfolio	2,144,650	1,622,254	-522,396

NPL as of December 31st 2020 was reduced by RSD 522,396 thousand compared to December 31st 2019, as a result of collection and sale of NPL receivables, as well as accounting write-off conducted for 100% impaired non-performing receivables. In the year of 2020, the Bank has collected RSD 605,068 thousand of NPL including write-off receivables, while accounting write-off of 100% impaired non-performing receivables in the same period amounted to RSD 40,330 thousand. 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 2020 to the end of the year 2019 amounted RSD 188,363 thousand.

Share of gross NPLs in total gross Bank's loans

Ratio	31.12.2019	31.12.2020	Change
Share of NPLs in total loans	4.59%	2.87%	-1,72 p.p.

The credit Risk Management Policy, adopted in the December 29th of 2020, defines the limit for the level of non-performing loans (NPL ratios) as a ratio of gross NPLs and gross loans at the level of below 7.5%. As of December 31st of 2020, the Bank is below defined limit.

NPL coverage

Ratio	31.12.2019	31.12.2020
Ratio of NPL coverage with Impairment provisions for loans	49.32%	67.75%
Ratio of NPL coverage with NPL Impairment provisions	42.53%	54.63%

In Credit Risk Management Policy, adopted in the December 29th of 2020, the Bank defined the highest acceptable level of non-performing exposures (NPE) in relation to total balance sheet and off-balance sheet assets that are classified at a level that is less than 7.5%, as well as the NPL coverage ratio which is calculated as a ratio of NPL impairments and non-performing loans (NPL) at the level above than 35%. The share of non-performing exposures (NPE) as of December 31st 2020 in total classified assets amounts to 2.06% and is significantly below the defined limit. The share of NPE decreased compared to December 31st 2019 for 1.18 p.p. The NPL coverage ratio as of December 31st 2020 amounted to 54.63% and it is significantly above the defined limit.

Liquidity Risk

**Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS
in the period from January 1st to December 31st of 2020**

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of December 31 st	1.89	1.68
Average	1.92	1.71
Maximum	2.56	2.13
Minimum	1.56	1.42
Daily NBS limit	Min 0.8	Min 0.5
NBS limit on monthly level	Min 1	Min 0.7

Liquidity ratios of the Bank during the period from January 1st to December 31st 2020 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 01.01-31.12.2020 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	25.15%	30.38%	28.23%	Min 20.00%
Net loans to total deposits ratio	88.87%	100.00%	95.69%	Max 200.00%
Customers' deposits to total deposits ratio	84.43%	95.17%	88.24%	Min 75.00%
Deposit concentration ratio	21.78%	25.57%	23.64%	Max 30.00%

The Bank was within internally prescribed liquidity limits during the period from 01.01-31.12.2020.

Foreign exchange risk

FX Risk ratio in the period from 01.01. - 31.12.2020

Value as of December 31 st	0.83%
Average	1.24%
Maximum	4.62%
Minimum	0.07%
Limit NBS	Max 20%

Foreign currency risk measured by FX Risk ratio was located in the low risk category during the last quarter of 2020.

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 31th 2020

	(in RSD thousand)
Total net weighted position	-526,289
Equity	10,801,152
Total net weighted position and equity ratio	4.87%
Internally prescribed maximum	20%

Operational risk

In the period from January 1st to December 31st 2020 in terms of Operational risk, 162 events were reported in the Application of Operational risks. Eighty-one of all events of operational risk that were reported referred to cash shortage or surpluses and have been successfully resolved (45 events of cash shortage and 36 events of cash surpluses).

Number of events	162
Cash shortage	45
Cash surplus	36
External frauds	44
Other	37
Net loss in EUR	1,935

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

Exposure risk**The Bank's exposure to persons related to the Bank and its large exposures as of December 31st 2020**

	(in RSD 000)	% of equity	Limit NBS
Persons related to the Bank	1,918,791	17.76%	-
Large exposures	5,500,167	50.92%	Max 400%

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%.

	31.12.2019	31.12.2020	Prescribed value
Concentration ratio of 20 largest clients/groups of related parties	119.87%	154.54%	Max 300% of regulatory capital

As of December 31st 2020, 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 31st in the mining and processing industry, the largest exposure of the Bank is 23.28% and in retail 20.51%, 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 Central and Western Serbia and amounts to 35.21% and in the region of Belgrade 31.86%, which is significantly below the internally defined limit of 70% and 50% respectively.

Exposures of the Bank to retail loans with a contractual maturity of more than 2920 days may not exceed 30% of the Bank's capital determined in accordance with the decision regulating the bank's capital adequacy increased by the amount of all bank liabilities in dinars with a remaining maturity of more than 1825 days. The calculation of the capital amount referred to in the preceding paragraph shall not be subject to the regulatory adjustments and deductions from capital prescribed by the NBS decision regulating the bank's capital adequacy, except for deductions for the loss of the current year and earlier years and for unrealized losses. As of December 31st 2020, concentration risk ratio in retail segment calculated as previously described is 12.80%, which is significantly below the defined limit.

Investment Risk

The Bank did not have investments in non-financial sector as of December 31st 2020. 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 and fixed assets as of December 31st 2020

	Investments into non-financial sectors	Investments into fixed assets	Total
Amount (000 RSD)	0	1,501,029	1,501,029
Share in equity	0%	13.90%	13.90%
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. do 31.12.2020, 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 31st 2020 were Germany, Austria, USA and Czech Republic. Countries in the category of medium risk were Turkey, Romania, Bosnia, Macedonia and Croatia. Exposure to countries in the category of medium risk was significantly below adopted internal limits during observed period.

Review of countries of clients whose exposure is involved in country risk as of December 31st 2020

Country	Risk category	Limit	Share in Bank's capital
Germany	low	without limit	3.15%
Austria	low	without limit	0.40%
USA	low	without limit	0.73%
Czech Republic	low	without limit	0.14%
Turkey	medium	100% regulatory capital	25.43%
Romania	medium	20% regulatory capital	13.77%
Bosnia	medium	40% regulatory capital	3.27%
Macedonia	medium	100% regulatory capital	19.30%
Croatia	medium	10% regulatory capital	0.04%

Decision on temporary measures for banks to enable adequate credit risk management amid COVID-19 pandemic

In view of the declared risk of spreading infective disease caused by the COVID-19 virus (corona virus), on December 14th 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 30th 2020.

The Bank shall approve 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 29th 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 15th 2020). The request may be submitted for one or more loans / credit products in use, no later than April 30th 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.

As the Decision entered into force on December 15th 2020, the Bank did not have in its portfolio loans approved in accordance with the provisions of this Decision as of December 31st 2020.

X CORPORATE GOVERNANCE RULES


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

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

HALKBANK A.D. BEOGRAD


Head of Financial Management and Planning Division
Aleksandar Mijailović


Member of Executive Board
Dušica Erić


President of Executive Board
Kenan Bozkurt

