2016

ANNUAL REPORT

HALKBANK

HALKBANK ANNUAL
REPORT 2016

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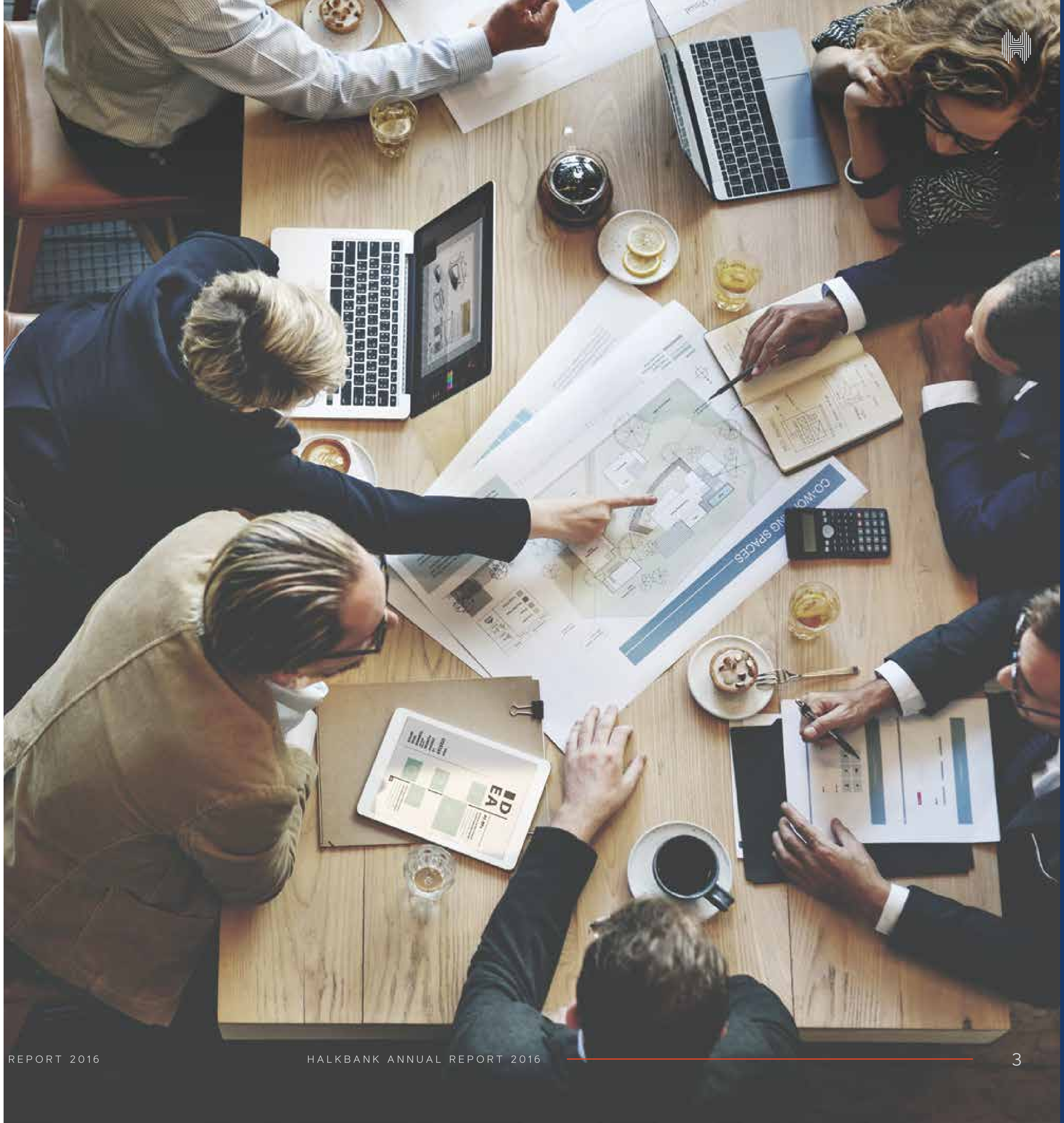


Dear Clients and Shareholders,

It is my pleasure to share with you the 2016 Annual Report of Halkbank AD Skopje. 2016 was a productive year for our Bank. Given the challenging economic and political environment, we're pleased that we were able to increase our income, underlying profit and market share. We finished 2016 at a stronger competitive position.

Before getting into the details about our financial performance and the important steps we are taking to become an even better bank, I would like to express my gratitude to all our stakeholders for their continuous patronage and support.

The objective of this Annual Report is to give all our customers, shareholders or stakeholders in the broader community a better insight into our work, our strategy, our action plans and our results for the past 12 months.

In 2016, Halkbank AD Skopje generated 7.67 million EUR in net profit, leading to an improvement of our return on equity of 10.6 % and strengthening the balance sheet, with distinct accent on the growth of our assets reaching 582 million EUR and our equity increasing to 67.5 million EUR.

We grew and improved our performance in all the aspects of our business, making a steady progress towards our strategic goals and targets.

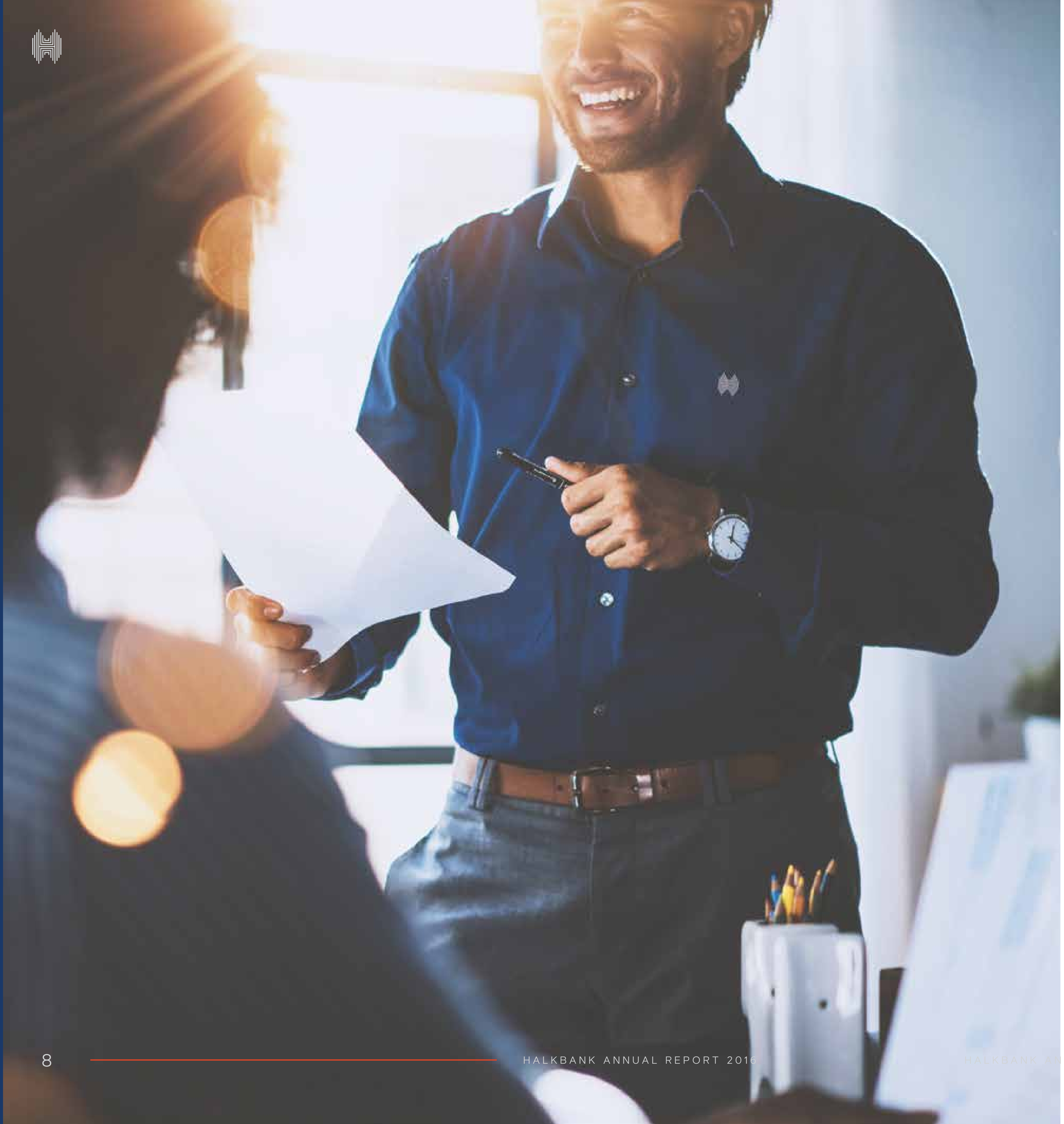
In the past 12 months, not only have we proved to be successful in delivering robust financial results, but we have also managed to strengthen our image as a trusted and reliable partner, and we have made a significant progress towards our goal of becoming the partner of choice for all our stakeholders.

I encourage you to continue reading our Annual Report and find out more about all the other financial and non-financial results we have accomplished.

Once again, I would like to express my gratitude for your interest in Halkbank AD Skopje.

Sincerely,
Turhan Ademi
Acting Chief Executive Director

Corporate Profile



Halkbank Skopje in brief

HALKBANK AD, Skopje was founded on 15.03.1993 as a joint stock company, previously known as IK Banka, to perform universal banking operations in Republic of Macedonia, including deposit collection, corporate and retail lending, foreign exchange operations, domestic and foreign payments, trading of fixed income instruments, and trade finance.

Ever since, the Bank has been a true pioneer in reaching significant achievements and developments in the Macedonian banking industry. It introduced the EN ISO 9001:2008 international quality management systems and the ISO 27001/2005 information security management, thus becoming the first bank in Macedonia to be certified by these prestigious standards of operation.

The Bank is also the first Macedonian agent of Western Union Money Transfer System from USA for services related to quick money transfer transactions from and to the country and abroad.

The Bank has initiated the increase of fast and quality services by implementing innovative processes in its business, such as its own card processing center, cards bonus program, new upgraded ATMs and POS machines, e-banking, e-commerce etc. In 2011, Halkbank AS Turkey acquired the majority of shares of IK Banka and completely rebranded the bank into what is now Halkbank AD Skopje.

Today, Halkbank has a widely developed national and international network consisting of 37 operating branches in Macedonia, correspondent banking cooperation with 404 banks and account cooperation with 16 foreign banks.

It also enjoys significant, long-term relationships with international financial institutions in providing long-term development funds to the Macedonian economy. Halkbank AD Skopje ranks among the top five banks on the Macedonian market. This role is supported by the Halkbank brand, which is one of the most widely recognized brands in its country of origin, Turkey.

During the years of presence on the market, it has developed a significant reputation and it is recognized as a trustable, customer-oriented, innovative, growing bank, as well as socially responsible and eco-friendly bank.

In 2016 HALKBANK AD Skopje showed continuity in supporting the real sector and the economy, while the quality of the offered services remained high. The loan portfolio of the Bank showed an increase from 335.4 to 381.4 million, or 13.7%, while the sector lending recorded a net increase of 64 million EUR where HALKBANK A.D. Skopje had a leading share of 69% in the total net increase with additional loans of 46 million Euros to Macedonian companies and citizens.

By the end of 2016, its 461 employees served approximately 145,000 clients in Macedonia.

Halkbank Turkey

Turkiye Halk Bankası A.Ş.

Turkiye Halk Bankası A.S. is the main shareholder of HALKBANK AD Skopje with 99.03% participation in the Bank's ownership.

Halkbank was founded in 1938 to support craftsmen and tradesmen and to accelerate country's economic development. The Bank's core business strategy has not changed during its 78-year history.

Halkbank sees every craftsman, farmer and small, medium or large-size enterprise owner creating value and generating employment as its potential business partner. Halkbank continues to be their primary supporter in Turkey allocating 39.5% of the Bank's total loan portfolio to SMEs.

As of the end of 2016, Halkbank operates with a global approach, through 959 domestic branch locations, five overseas branches, three overseas representative offices, 3,741 ATMs, telephone and internet banking channels and mobile banking applications. The Bank's innovative products and services provide customers with an unparalleled banking experience.

Halkbank ranks among the sector's most efficient banks in terms of return on equity. The percentage of Halkbank's outstanding shares that are publicly held is 51,1%. Halkbank today is a steadily growing institution with tradition of 78 years that ranks among the longest established, pioneering and most respected brands in progressive Turkey.

Mission

To continuously create value for customers, shareholders and employees by efficiently providing all banking services with an awareness and understanding of corporate social responsibilities and duties; to contribute to the development of the banking sector and capital markets; to establish a well-respected market position in the region and in the global banking industry.

Vision

To be leading bank for SMEs in the region, to have universal banking capabilities and to establish a strong market presence in retail services.

Shareholder Structure

HALKBANK AD Skopje was founded as a joint stock company in March 1993, with a Decision adopted by the Bank's Assembly. The Bank gained the capacity of a legal entity with its registration in the Register of the District Commercial Court, under No. 5877/93 dated 13.04.1993.

At the moment, the total nominal capital of HALKBANK A.D. Skopje is 3,633,180,000.00 denars, divided into 363,318 ordinary shares, whose nominal value per share is 10,000.00 denars. The majority shareholder of HALKBANK A.D. Skopje is Turkiye Halk Bankası AŞ Ankara with 359,785 ordinary shares i.e. 99.03% of the total number of shares.

The Bank issues ordinary shares and it may also issue other shares with different rights. The shares providing same rights make up one type of shares. According to such rights, the shares may be ordinary and preference.

Preference shares may have several classes and they may not be issued with a nominal amount lower than the nominal amount of the ordinary shares. Preference shares of the same class ensure the same rights.

Ordinary shares ensure the following rights to their holders:

- voting right, where one ordinary share provides one vote in the Bank's Assembly;
- dividend right in accordance with the decision of the Bank's Assembly ;
- right to a payment from the balance of the Bank's liquidation, i.e. bankruptcy estate;

Shares are not divisible, but they are negotiable. The negotiability of the ownership of the Bank's shares is free and it is carried out in accordance with the terms and conditions defined under the Law.

Shareholders Structure	Number of shares	Amount of the Share MKD	Shareholding %
Türkiye Halk Bankası A.Ş.	359,785	3,597,850,000.00	99.03
Other Shareholders	3,533	35,330,000.00	0.97
Total	363,318	3,633,180,000.00	100

Key Financial Indicators

By the end of 2016, HALKBANK's total assets increased from EUR 490.3 million to EUR 582.5 million.

In 000 EUR	2015	2016	%change
Total Assets	490,267	582,543	18.8
Liquid Assets	57,526	81,511	41.7
Loans	335,459	381,415	13.7
Securities	80,072	99,752	24.6
Total Deposits	336,435	385,549	14.6
Shareholders' Equity	68,647	75,330	9.7
Net Interest Income	17,349	20,598	18.7
Net Fee and Commission Income	3,217	3,756	16.8
Net Profit	6,023	7,667	27.3

Key Ratios (%)			
Net Interest Margin	4,2	4.2	
Cost/Income Ratio	59,2	53.8	
Net Fee Income/Operating Expenses	24,9	27.0	
NPL Ratio	2,0	1.7	
Loans/Assets	68,4	65.5	
Net Loans/Deposits	99,7	98.9	
Securities /Assets	16,3	17.1	
RoE	9,2	10.6	
RoA	1,3	1.4	
Capital Adequacy Ratio (CAR)	12.6	13.6	

Total Assets

18.8%

2016	582,543
2015	490,267
2014	418,912

Total Securities

24.6%

2016	99,752
2015	80,072
2014	54,135

Net Loans

13.7%

2016	381,415
2015	335,459
2014	275,746

Deposits

14.6%

2016	385,549
2015	336,435
2014	287,571

Shareholders’ Equity

9.7%

2016	75,330
2015	68,647
2014	62,692

Net Income

27.3%

2016	7,667
2015	6,023
2014	4,409

Halkbank's Position in the Sector

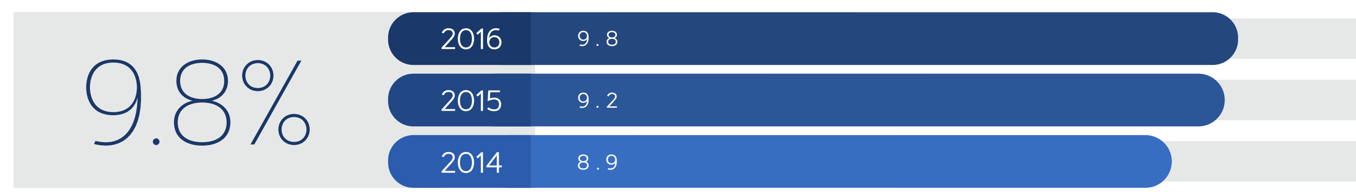
Market Share %	2015	2016
Assets	7.1	8.1
Loans	7.7	8.5
Deposits	5.7	6.3
Equity	9.2	9.8
Profit	8.0	7.50

Equity

Total Assets

Loans

Deposits from Customers



Halkbank's Milestones

1993 – HALKBANK AD Skopje was established as a joint stock company.

1998 – Became the first Western Union authorized agent in Macedonia.

2004 – Became the first bank which implemented e-banking on the Macedonian market and was awarded Bank of the Year by the Macedonian Economic Chamber.

2005 – Introduced the EN ISO 9001:2000 International Quality Management System, thus becoming the first bank in Macedonia certified with International Quality Management System.

2006 – Introduced the prestigious ISO Standard for Information Security Management, ISO 27001:2005, thus becoming one of the few banks in Southeast Europe which have incorporated this certificate.

2007 – It was awarded Best Bank in Macedonia for 2007 by the Finance Central Europe magazine from London.

2008 – Established its own POS Terminal Network for VISA Payment Cards and it was the first to launch the VISA GOLD Credit Card.

2009 – Became the first Bank in Macedonia which offers e-commerce services for VISA CARDS holders.

2010 – Obtained two new certificates: MASTER CARD certificate for POS payments and e-commerce and ISO 9001:2008 certificate for quality.

2011 – HALKBANK AD Skopje purchased the majority of the shares in IK Banka amounting up to 91.56%; completed the rebranding process and enlarged its principal with MKD 1,465,450,000.00.

2012 – HALKBANK AD Skopje established its own card processing system - first on the Macedonian market to offer contactless payment to clients; acquired Ziraat Bank AD Skopje and opened the first VIP Corporate Branch on the Macedonian market.

2013 – Opened the first Macedonian representative banking office in Belgrade, Serbia, and was the first Macedonian bank which launched MASTER CARD PayPass contactless payment cards.

2014 – Halkbank AD Skopje became proud general sponsor of the Macedonian Basketball Federation.

2015 – Halkbank AD Skopje introduced new platform for e-banking that combines the best from technology and contemporary banking trends and enables its clients to get all banking services with only few clicks.

2016

- Ranked among the TOP 100 SEE banks by assets
- Introduced its mobile applications for e-banking for individuals and legal entities, making another step towards improving its customers experience
- Was certified according to the highest-ranking international standard for information security regarding processing payment cards, PCI DSS v3.1.
- In December 2016, Halkbank AD Skopje implemented the highest standards for security and safety in the internet payments in the country and abroad, 3D Secure –Verified by Visa – VbV, and the MC Secure Code protocol.

Halkbank Skopje Vision, Mission, Targets & Corporate values

Our Vision

To be one of the leading banks in the region's, able to execute all universal banking requirements, while asserting a strong presence in retail services.

Our Mission

To continuously create value for customers, shareholders and employees by efficiently providing all banking services with an awareness and understanding of corporate social responsibilities and duties; to contribute to the development of the banking sector and capital markets; to establish a well-respected market position in
the region and in the global banking industry.

Our Target

- To be one of the leading banks in Macedonia;
- To be the first choice of corporate, SMEs and retail customers;
- To employ highly-skilled staff and continuously motivate and train them;
- To continuously work on creating added value for customers, shareholders and employees by effectively carrying out all banking services;
- To grow steadily while sustaining profitability;
- To promote awareness and understanding of social responsibilities and duties while contributing to the development of the banking sector and capital markets.

Our Corporate Values

- Customer focus
- Reliability
- Integrity
- Commitment
- Trust
- Creativity
- Innovation
- Value creation
- Respect and relationship
- Dynamism
- Teamwork
- Productivity
- Transparency
- Sensitivity
- Self-confidence
- Openness to change
- Social responsibility awareness
- Sharing knowledge and experience

Halkbank's strategies

1. Expanding the scope of innovative products and services in order to ensure customer satisfaction;
2. Offering superior products and services to the real sector
3. Embracing a high-quality, customer-oriented service approach using direct marketing and continuously taking care of our clients
4. Effecting a high level of productivity in all business processes in order to achieve a rich product line, transaction and system security, rapid and high-quality transactions, and competitive pricing
5. Ensuring continuous development and motivation of employees via carrier route system through investment in education, training and further development
6. Keeping up with the global banking trends and becoming the first bank to implement global trends in the Macedonian market

Management Assessment

HALKBANK

Chairman's Assessment

Mr. Bilal Sucubaşı
Vice President of the Supervisory Board*

*As of 20.09.2017

In 2016, despite the fluctuations in global financial markets, economic challenges and political uncertainties, Macedonia managed to reach a growth of 2.4%.

Many factors impacted the dynamics in the economic growth of the country, including the international environment and influences from major turmoils, such as the Brexit and its impact on the eurozone, USA elections and the uncertainty in prices of some primary products on one hand, and mostly and predominantly, the uncertainty in the domestic economy deriving from political matters in the country on the other.

This international and domestic environment inevitably influenced the outcome of the Macedonian economy, in general, and of the financial sector in particular. However, the economy overall continued to grow, and the banking sector managed to maintain its stability and positive performance.

As for our Bank, 2016 was a year of growth and success. Achieving successful results in all areas of its operations, Halkbank continued providing significant support to the real economy.

While delivering banking services in line with our core principles and in the most efficient and productive way, we continued adding value for our customers, shareholders and employees, as we extended our wide-ranging support to Macedonia: from economic development to social advancement.

In 2016, HALKBANK AD Skopje made a significant progress in a number of strategic fields that have strengthen the position of the Bank on the market, both in terms of profitability and shareholders' value.

One of the most notable advances was the growth in terms of Bank's equity and assets that positioned the Bank among the top 5 banks in Macedonia.

It has been a crucial year, a year in which our plans of broadening and strengthening our platforms and enhancing our customer experience were realized and the expectations fulfilled.

As before, our focus in 2016 remained unequivocal and certain: ensuring that our customers receive the best quality service and remain our biggest inspiration and motivation in creating and improving our products, services and the overall banking experience.

Another key focus in our strategy are the SMEs we support in any way we can, financially with our numerous products and services customized and tailored to meet their needs and otherwise, by supporting them throughout the process of development and growth.

We believe that our lending strategy has contributed to many entrepreneurship projects aimed at starting and expanding businesses in the country.

Continuously, the Bank is making great strides to enhance customers' experience with constant technological improvements and investments, from new ATM machines and last-generation POS terminals, contactless technology in payment cards systems, to e-banking platforms and mobile banking and many other improvements in its processes, following the practices and trends in the banking sector and its parent bank, Halkbank Turkey.

As of its entry on the Macedonian market, Halkbank succeeded in positioning itself as one of the most innovative and responsive banks. Digital accessibility and increased automation of internal processes is a key asset and advanced banking technologies are the platform upon which Halkbank AD Skopje has built its reputation as a bank that is innovative, modern and customer-oriented.

Along with improvements in technology and operations, continuous investments are being made in human resources that have lead to improved employee productivity, by equipping our people with knowledge and expertise necessary to implement and perform banking activities in a dynamic commercial, technological and regulatory environment in which we operate.

I value the hard work and dedication of Bank's staff, who proved to be able to respond to the ever-increasing demands of daily operations and who thereby made the recorded results achievable.

I am pleased with the results that the Bank has accomplished in 2016 within its entire scope of activities, especially with the financial outcomes, such as the strong lending momentum, growth in profitability and strong growth in the capital position of the Bank.

The data presented below are of great importance for all of us. They represent the exceedingly appreciated success our Bank has accomplished throughout 2016. Our expectations and projections are firmly based on our aspirations of realizing steady and even greater results, meeting the challenges and seizing the opportunities in the year ahead.

Sincerely,
Bilal Sucubaşı

Vice President of
Supervisory Board

CEO Assessment

Mr. Turhan Ademi
Acting Chief Executive Director

In 2016, Halkbank AD Skopje has made a solid progress in delivering its long-term strategy and, at the same time, it grew dramatically in financial terms, in terms of human resources and in terms of market share.

We have successfully cut costs, managed to swiftly reduce our balance sheet risks and, finally, we managed to strengthen our capital position. On the other hand, in the 5 years of presence in the Republic of Macedonia we also managed to strengthen our position on the market and our image as a stable, safe and reputable bank.
In spite of the existing economic and political turmoil in the country, we remained focused on our growth, especially the profitability growth which remains a top priority of Halkbank.

Our aspiration is to become one of the three leading banks in the country and we are more than ever before certain that we are on the right path.

In 2016, we continued investing in our branch network, technological basis, human resources and in the field of the social responsibility.
We finished the year 2016 with a branch network that consists of 37 branches and we increased the number of our employees to 461.

Our most important metric has been the customer satisfaction and this remains the case. Serving our customers and working in their best interest is what makes our business sustainable. Our employees have been working tremendously hard in the past several years to deliver services, products and innovation that customers expect.

In order to get closer and more accessible to our clients, in 2016 we have opened 3 new branches and reached total number of 37 branches, ATM network with total of 103 ATMs and 4,852 POS terminals in the country.
We are continuously improving and investing in our alternative distribution channels, following the trends in the banking industry to offer more digitalized banking experience for our clients. Moreover, we constantly work on empowering our customers with tools that provide better insight into their finances, as well as products and services that make banking easier.

In order to meet the needs of our clients, we relied on our digital banking capabilities and resources to launch mobile applications for electronic banking for our retail and corporate customers.

In 2016, our customers could benefit from services like online application for loans and deposits directly on our website, improved security in executing their internet transactions with the implementation of the 3D Secure Standard as the highest level of security in internet payments, as well as the SMS Info service that provides information for the transactions generated directly on their mobile devices.

Halkbank's investment in digital technologies, such as the upgrade of the core banking IT infrastructure, is now delivering market-leading advantages, considering the dependence on integrated, real-time systems in providing benefits for our customers, which is clearly reflecting in the substantial annual growth of processed transactions.

Our top priority and our basic responsibility remain the same. Supplying businesses and providing them with loans so that they can grow, thus contributing to the economic growth of the country and employing more people are our main pillars towards which we focus and remain committed. At the same time, we managed to balance our credit portfolio almost equally in providing loans for the citizens, so that they can buy a home, plan their future and respond to their financial needs.

Keeping our focus on this, comparing to 2015, we managed to deliver robust financial results and growth in our credit portfolio of 13.5 %. On the other hand, our deposit base remained strong and stable and we recorded 14.4% growth in the deposit portfolio.

In 2016, the Bank delivered solid financial performance in terms of net profit that reached 7.67 million EUR, leading to an improvement of our return on equity of 10.6 %.
I am pleased with the progress we have achieved this year and I am proud to announce that, together with our team, we succeeded in positioning our Bank among the top five banks in the country.

It is my pleasure to announce that Halkbank AD Skopje is the 5th largest bank in terms of Assets and 4th largest bank in terms of Equity in 2016. Total assets at the end of the year reached 582 million EUR and the equity increased to 65 million EUR, which clearly demonstrates our strong determination for presence and the long-term strategy for growth. These significant achievements give us additional drive and motivation in moving forward the agenda of the Bank in becoming one of the leading banks in the region by strengthening our position, while continuously creating values for the customers and other stakeholders.

As a Bank, we stay committed to building strong relationships with all our stakeholders, strong base of loyal clients, and last but not least, motivated and dedicated employees that provide excellent quality services.

We are an institution which cares about its employees and we can proudly declare that our employees are our biggest asset. We are always striving towards creating an environment where they are given possibilities to reach their full potential and feel motivated, self-accomplished and respected, since this is embedded in our culture and company values.

I would like to express my deepest gratitude to our Board of Directors, our Management Team, and our teammates for their hard work and consistent level of performance over the past few years, to our customers and clients for giving us the opportunity to serve their needs, and to our shareholders for the continuous faith in the bright future of our Bank.

Respectfully,
Turhan Ademi

Acting Chief
Executive Director

Activities in 2016

Pioneering Products

Frozen interest rates!

Halkbank is offering fixed deposits with "frozen interest rates" and tenor of 13 months during the promotional period. The key message is to "Freeze" your savings and get more with the fixed deposit of Halkbank.

Promo deposit

Promotional product with attractive interest rates for saving in denars and euros, intended for individuals, for the duration of the International Month of Saving- October.

Enjoy extra benefits at the end of the month!

Promotional offer for all users of credit cards MasterCard Standard, MasterCard Contactless, Visa Classic and Visa Gold, for cash withdrawal without commission every last week of the month, allowing the customers to experience the end of the month as a beginning of new pleasures. The promotional offer is valid only for cash withdrawals from ATMs Halkbank AD Skopje for a certain period of time.

It's time for the car of your dreams!

Car loan with attractive interest rates and favorable repayment period in cooperation with several car dealerships. The loan is designed to fit in client's budget and fulfill client's needs and expectations.

There is always more for YOU!

Bonus program for using the Halkbank's credit cards enabling the customers to collect bonus points with every transaction made and use them in the future payments.

Your finances are our business!

The ESNAF Loan from Halkbank offers favorable conditions for Micro and Small Enterprises that wish to expand their business. With Halkbank you have a partner who is committed to managing a detailed account of everything concerning the business, enabling the client to spend wisely and become an "esnaf" man!

Manage your business comfortably!

The Raat Loan from Halkbank offers a simple solution for financing permanent working capital and other liabilities whose business cycle is longer than one year. Conceptualized to provide sufficient period for repayment at competitive terms, the Raat Loan of Halkbank is the financial tool that will enable stable functioning of the business even in the most turbulent times.

Smart move!

Halkbank AD Skopje is providing the users of Visa Gold Credit Card issued by Halkbank the possibility to make the right move through a wise investment in their future, by using the gold deposit with favorable interest rates for savings in MKD and EUR.

There is only one way to endless pleasure!

The Mastercard World Contactless Credit Card enables contactless payment in a quick and simple way. By using this card, every customer becomes part of the Mastercard Platinum Club - LoungeKey program where they can enjoy all the benefits in the VIP lounges in over 800 airports around the world included in the program.

No costs suits the most!

Promotional campaign for consumer loans, offering 0% processing fee for all types of consumer loan, possibility for applying online, fast processing and short term for approval.

Let's bridge over costs!

Promotional campaign offering lower costs for all FX transactions towards Turkey and Serbia through Halkbank AD Skopje for clients having an account in Halkbank Turkey and/or Halkbank Serbia.

Your own branch!

The mobile banking of Halkbank AD Skopje is a banking application for new generation mobile devices, which enables clients to have access to the accounts and execute transactions quickly and easily at any time, from any place, only by downloading the free mobile application from the App Store for IOS devices, or from the Play Store for Android devices.

Save smart, stay in plus!

Promotional campaign offering attractive deposit interest rates for the clients who are using 3 or 4 banking services of Halkbank AD

Skopje from the following range:
• Credit Card
• SMS reporting service
• E-banking
• Receiving salary/pension in the Bank.

Stay informed 24/7!

The SMS reporting service provided by Halkbank AD Skopje provides clients information about every successful or unsuccessful transaction made with their credit or debit card through ATM, POS and internet. The SMS notification includes: the amount, the place and date of the transactions.

Corporate and SME's Banking

Continued Customer Satisfaction

The progressive and successful marketing strategy of the Bank influenced the growth of SMEs and Corporate loan portfolio in 2016. The number of companies that are using loans from Halkbank in 2016 reached 1,672 clients. The total disbursed loans to companies in 2016 reached 271.2 million EUR to 1,215 companies in total, out of which 48 are big corporate clients with total amount of 125.6 million EUR and the rest 1,167 are SME companies with total amount of 145.6 million EUR. Our future strategy is to increase the number of satisfied clients that will use the products and services of the Bank.

13.3% growth in Corporate and SMEs cash loans

Halkbank's rapid growth in Corporate and SMEs banking continued in 2016. During the year, Halkbank AD Skopje extended total cash loans of 24.7 million EUR to the corporate and SMEs segment clients. In 2016, the the total portfolio of commercial loans reached 209.8 million EUR. Corporate and SMEs seek to realize opportunities by further strengthening their position on the market. That influence also led to significant increase in the growing of SMEs and Corporate loan portfolio by 13.3% compared to 2015. With this increase in 2016, the Bank holds market share of 8.5%.

Halkbank AD Skopje supports Corporate and SMEs with credit lines from other institutions

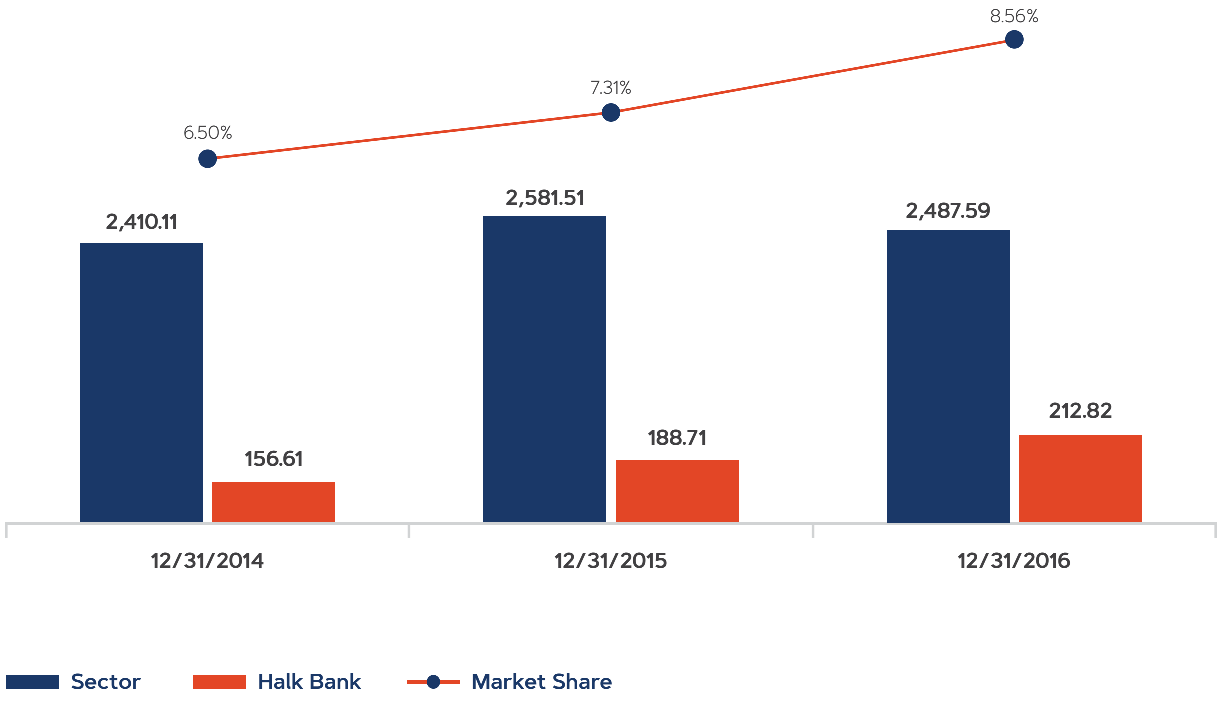
During 2016, Halkbank AD Skopje continues using credit lines from other financial institutions. The Credit lines that Halkbank uses are as follows:

- EIB credit line, realized through MBDP, for financing micro, small and medium enterprises and priority projects of legal entities from the Republic of Macedonia;
- Green for Growth Fund Southeast Europe (GGF) for financing projects in the area of energy efficiency, thereby helping enterprises in Macedonia to reduce energy consumption and energy costs;
- EFSE Credit Line – The European Fund for Southeast Europe S.A., to provide loans to SMEs;
- Credit line from MBDP for financing projects – investment of micro and SMEs clients;
- EBRD credit line for companies dealing with export and import;
- Project through Agency for Employment of Republic of Macedonia realized through MBPR; the project is active measure designed by the Government. The project is implemented as a project for self-employment, training for unemployed people and entrepreneurship, as well as unemployed people with the aim of assisting them to start business in different sectors: agribusiness, crafts, personal services, trade, manufacturing, tourism, etc. and a project lending to legal entities (MSEs) for creating new jobs for unemployed people through lending.
- Credit line from MBDP on behalf of the Ministry of Finance for financing projects – for utilization of the Renewable Credit Fund from ACDF (Agricultural Credit Discount Fund).

Halkbank AD Skopje will continue supporting SMEs and corporate clients

The success achieved in 2016 will be an additional incentive for Halkbank AD Skopje to continue working as a professional partner of Corporate companies and SMEs in the country and will continue working on increasing customer satisfaction. We are always there for our customers. With well-established organizational environment and strong management system, the Bank will continue expanding its relationships with SMEs and corporate clients and developing new opportunities together.

Market share of Corporate portfolio of Halkbank in total corporate portfolio of the Banks (in mil. EUR)



Retail Marketing Department

Halkbank provides a broad range of retail loan products and banking services to private individuals throughout the country. These include products and services for everyday finances as loans, overdrafts and etc.… Halkbank AD Skopje continued increasing its retail banking business line in 2016 by using creative marketing approaches for diversified customer segments.

Halkbank increases its ongoing support to the retail clients with variety of new products and creative solutions promoting market customer care and consistency before pricing. Retail lending officers oversee their respective activities throughout the branch network, providing branch managers and staff with invaluable support and guidance. The number of clients during 2016 was constantly in positive trend and our portfolio was increased, all due to fact that customer satisfaction was our main priority on the list of working activities for all Branches in Halkbank's network, under close watch of the Retail Marketing Department.

Direct marketing activities and promotions reaching to final customer

The Retail marketing team operating in the head office and in our branches during 2016 was oriented especially to direct marketing activities in public companies, corporate and SME clients, and public institutions creating close connections with their customers in order to create higher market awareness which had successful outcome and resulted into net increase of retail portfolio. Retail lending serves three strategic objectives: it fulfills the mission of providing financial services to clients with regular and secure income for individuals, it helps Halkbank in developing a retail client base for attracting deposits from private individuals and it strengthens links with SME and corporate clients by providing financing to their customers and employees.

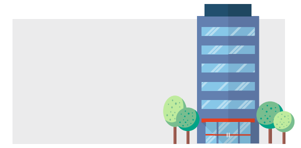
In 2016, total retail loan portfolio reached 171 million EUR, compared to 31.12.2015, when the portfolio totaled 150 million EUR, which is a net increase of 21 million EUR by the end of the year and growth of 14.2%. The share of the retail loan portfolio in the Halkbank's total loan portfolio is 44.82%.

The Bank is committed to developing its retail lending responsibly to ensure that clients are not overburdened with debt. In this direction, in 2016 few changes were made to decisions and a few product in the area of client's creditworthiness were modified in order to adjust client's incomes with installments on a monthly level.

The best products in the area of secured loans are the best points that we would like to emphasize in this past year. Transferring unsecured portfolio to secured one is a goal that we are striving to achieve in the forthcoming period. portfolio of commercial loans reached 209.8 million EUR. Corporate and SMEs seek to realize opportunities by further strengthening their position on the market. That influence also led to significant increase in the growing of SMEs and Corporate loan portfolio by 13.3% compared to 2015. With this increase in 2016, the Bank holds market share of 8.5%.

Products targeting variety of client profile

During 2016, Halkbank AD Skopje managed to offer wide range of products in several campaigns with attractive interest rates and different product solutions for consumer, housing and mortgage loans;

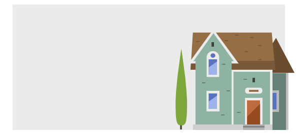


Housing loans in cooperation with construction companies

In order to enlarge collateralized portfolio in retail, housing loans for construction companies with duration of up to 300 months were promoted during 2016.

The product is designed for selected construction companies that have long experience in the field, and have projects that are ongoing with wide field of cooperation. The main advantages we can underline are the annual interest rates for the first 4 years, low monthly installments as a result of long repayment periods of up to 25 years, no fee for approval of the loan, simple application procedure etc.

Market Share of Housing loans	31.12.2014	31.12.2015	31.12.2016
Sector	416.133	491.353	561.967
Halkbank	7.693	11.782	19.352
%	1,85%	2,40%	3,44%

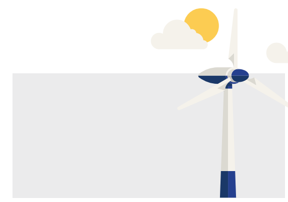


New Multipurpose Mortgage Loan aimed at increasing collateralized portfolio

This product was introduced in November 2014, first for the Skopje region and at the beginning of 2015, the product developed dynamically to include all properties in Macedonia. The intention of the Bank was to grow in this market segment, which also enabled increase of the collateralized portfolio.

The main objective for the Mortgage Loan product is to fulfill Halkbank's mission of providing access to essential financial services for refinancing all credit exposures of clients in other banks by offering attractive interest rate. In 2016, the Mortgage Portfolio reached 45.87 million EUR, compared to 31.12.2015, when the portfolio totaled 33.35 million EUR, which is a net increase of 12.53 million EUR by of the end of 2016 and a total growth of 37.5 %.

As far as retail lending is concerned, in addition to the growth of mortgage lending of 37.5%, Bank's results also improved in terms of housing loans (64.24% growth) and ECO loans (199.33%), which is an important acceleration against the slowdown in consumer unsecured lending.



ECO loans for energy efficiency

ECO loans help private households to reduce their energy costs and consumption, implement cleaner production projects and reduce greenhouse gas emissions. Halkbank has significant experience and expertise in providing energy efficiency-related finances, and it is one of the first banks in Macedonia to provide energy efficiency loans. In 2016, it has financed 1,976 projects for retail clients totaling 26.2 million EUR.

The Bank intends to raise public awareness regarding the need for more rational energy use and increased use of renewable energy sources to reduce energy costs and generate savings, yet without hampering quality of life and economic activity.

During 2016, Halkbank AD Skopje has offered strong promotional activities to the largest trade unions, contacts with companies with high salaries, connecting with partners for ECO loans, connecting with merchants for consumer loans and etc.

The Bank has signed protocols for joint marketing with 13 companies that are directly involved in working with eco-friendly materials, products and solutions, and the results were more than satisfactory. Clients got the full service and exercised their right to information on the market at the same moment when decisions for home investment were made.

Fourth bank in the banking sector in terms of outstanding and net increase of Total Retail Portfolio

2016 has been very successful for Halkbank AD Skopje in the ever increasing competitive retail banking market. With its 37 branches, Halkbank AD Skopje during 2016 managed to meet all client's needs very efficiently and due to the high-quality service, the Bank managed to get into the fourth place in terms of net growth and outstanding of total retail loan portfolio among another banks in Macedonia for 2016, based on the data of 31.12.2016.

On the retail lending side, Halkbank AD Skopje performed in line with the market trend and managed to achieve increased market position with net increase of retail portfolio of 21 million EUR or 14.2%, compared with the beginning of 2016 till the end of the year. Halkbank retail net increase participates in total retail growth of the retail portfolio on a banking sector level with 12 %. In 2016, the structure of the lending portfolio continued to favor the balanced approach, maintaining and improving the ratio of secured lending versus unsecured loans.

In numbers: loan disbursement of total disbursed retail loans during 2016 totals 70 million EUR or 8,795 loan agreements.

Compared with the banking sector, in 2016, Halkbank AD Skopje managed to constantly increase its market share of total retail portfolio and finished with 8.49% market share which is an increase of 0.3% compared with the end of 2015, when the market share was 8.19%. In terms of its retail portfolio, Halkbank AD Skopje finished 2016 on the fourth place among all other banks in the Republic of Macedonia. At the end of 2016, regarding its products, Halkbank's biggest market share is in consumer loans - 11.66%, Eco loans - 13.37% and overdrafts – 9,81 %.

* in mil. EUR

	31.12.2014	31.12.2015	31.12.2016
Halkbank	126,7	155,2	174,6
Sector	1.675,9	1.896,9	2.058,3
Market share %	7.56%	8.19%	8.49%

Clients with salaries and overdrafts

The number of clients who get their salaries through Halkbank AD Skopje increased in 2016: starting with 43,982 clients in December 2015, up to 48,499 at the end of 2016. This was surely the result of constant visits and promotional activities to employees in public companies and institutions from one side, and of our reputable and stabile corporate and SME clients, on the other.

Along with the new salary clients in Halkbank AD Skopje, we actively promoted profitable products to our clients with salaries. Number of overdrafts was increased from 21,862 up to 22,669, which was an increase of additional 3.7%.
In addition, the market share data for overdrafts is presented below.

Market Share of Overdrafts	31.12.2014	31.12.2015	31.12.2016
Sector	86.569	90.926	94.439
Halkbank	7.538	9.008	9.269
%	8,71%	9,91%	9,81%

Close relations with clients to achieve steady NPL ratio

In addition to providing excellent customer care and intelligent solution for every retail customer, Halk Bank AD Skopje also managed to decrease its NPL ratio during 2016 from 2.65% at the beginning of the year to 0.98% at the end of the year.

NPL Ratio	31.12.2014	31.12.2015	31.12.2016
Sector	5,66%	4,99%	2,61%
Halkbank	3,01%	2,65%	0,98%

Deposit and Cash Management

Halkbank total deposits in 2016 have increased by 45.08 million Euros and reached 363.51 million EUR.

Increased market share in 2016

In 2016, Halkbank AD Skopje has continued its growth in deposit and increased its market share. At the end of 2016, the market share in total deposit has reached 6.95%. Compared to the end of the last year, our market share has increased from 6.43% to 6.95%.

Halkbank's participation in the total growth of deposit is 16% or 45.08 million Euros, out of 281.89 million EUR. In retail deposit, we have managed to increase the market share to 4.64%, while in corporate deposits we managed to reach an increase to 12.07%. Our participation in growth of retail deposit is 16.29% and in corporate deposit is 15.84%. Halkbank follows a dynamic deposit management strategy based upon optimization of cost and increasing the participation in market share.

Average interest rate of the total deposit from customers has been decreased to 1.50%, compared to the end of 2015 when the average interest rate of deposit base was 1.60%. It seems that once again, security and tradition are key factors when choosing the best bank for savings.

Continued growth of deposit base

Halkbank AD Skopje has continued with a very clear and strong development strategy with the aim of increasing its deposit portfolio with significantly reduced interest rate costs and increased market share. The policy of the Bank is focused on the client demands by offering various and flexible deposit products, adapted to the market conditions, while maintaining high standards of customer service.

The focus on clients' needs and demands, and satisfying their needs and requirements is also demonstrated through the opening of new branches and expanding the ATM network. Halkbank AD Skopje sustained its strong and widespread deposit volume, as well as the maturity composition of its deposits. The focus remains on improving the quality of products and services in order to be closer to the customers and satisfying their needs and requirements. Halkbank's clearly defined deposit strategy helps the Bank achieve and sustain a broad deposit base.

Strong Deposit Base

Total deposit base from clients in 2016 has reached 363.51 million Euros, whereas time deposit from customers are 248.01 million Euros and sight deposit are 115.51 million Euros.

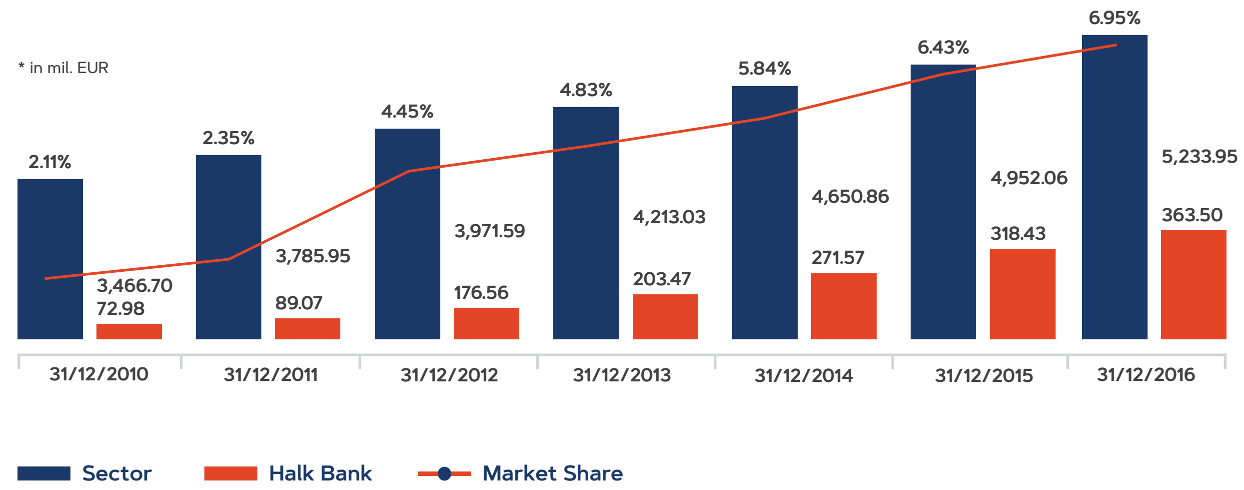
In 2016, sight deposits have grown by 10.20% or 11.78 million Euros and time deposits have grown by 13.43 % or 33.3 million Euros. In 2016, the Bank was focused on increasing the sight deposit by devoted cash management strategy which has led to achieving these excellent results in the field of sight deposit. On the other hand, we have focused on maintaining the current time deposit base and providing high level of service.

Promotion of new innovative products, opening new branches and introducing cash in ATMs has led to increase of retail deposit by 8.8% or 14.75 million Euros. On the other hand, corporate deposits have increased by 30.32 million Euros or 15.48%.

Increased number of customer accounts - 16,327 newly opened account

Halkbank AD Skopje continued to grow on the Macedonian market through the attractive packages of products and services that we offer to our customers, so the number of customer accounts increased by 10.49 % or 16,327 new accounts, reaching a total of 155,663. In addition, significant fact at the end of 2016 was the increasing of the number of salary and pension recipients through Halkbank AD Skopje, which has increased by 9.31 % in 2016 year.

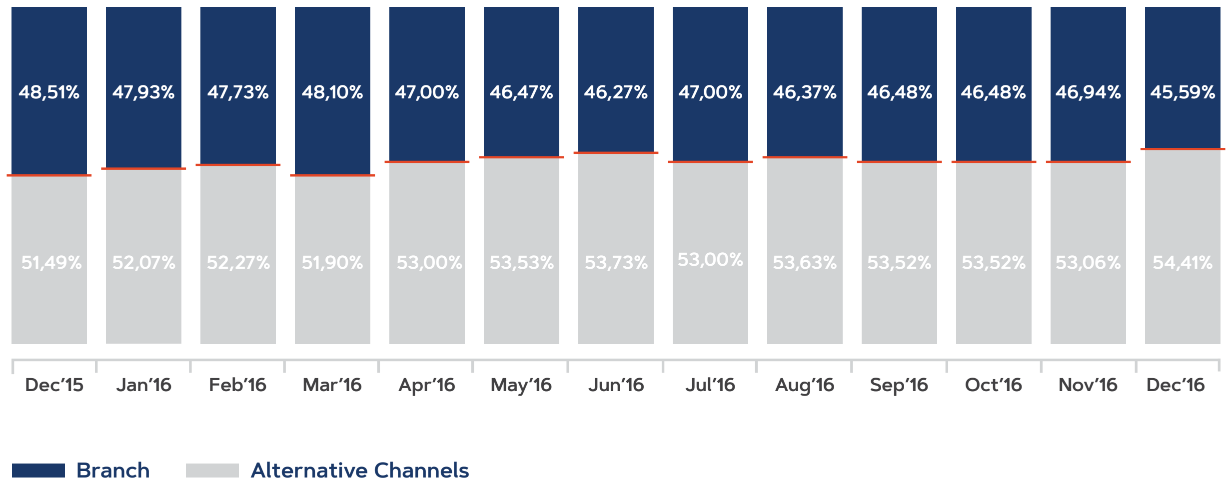
All this contributed to the increase of the number of transactions by 12%, compared to the previous year. Moreover, very important fact is that the number of transactions through e-bank and ATM has been increased as absolute figure as well as percentage compared with transactions in branches.



Halkbank Alternative Distribution Channels and Payment Cards Department

In 2016, the Alternative Distribution Channels and Payment Cards Department continues implementing innovations to ease customer's life, giving them opportunities to finish their obligations in a faster and less costly way. Halkbank continually undertakes efforts to improve and expand the scope of the Alternative Distribution Channels, which save time and reduce costs for both the customers and the Bank.

Bank used the distribution channels intensively in 2016 in order to increase customer satisfaction, reduce the operational risk at the branch level, deepen customer relationships and acquire new clients. 54% of the transactions are currently done through the Alternative Distribution Channels.



Halkbank aims to provide additional values and opportunities for the credit and debit cardholders

In 2016 Halkbank AD Skopje started cooperating with AMSM.
Halkbank AD Skopje clients have an exclusive benefit of getting AMSM membership card with AMSM package of services (Europe Premium Membership) for free.

Thus, Visa Gold Card Users increased rapidly and contributed for the increase of the transactions and volume as well, which was the main aim connected with attraction of high-end clients.

In 2016, the Alternative Distribution Channels and Payment Cards Department implemented the Mastercard World product for individuals.

Mastercard owners became part of Mastercard Platinum Club where they can use all the privileges and benefits and enjoy membership of the Lounge Key programme with complimentary access to over 800 airport lounges worldwide. Moreover, additional value is provided with the Travel and Health Insurance policy in duration of 1 year.

3D Secure project

In 2016, the Alternative Distribution Channels and Payment Cards Department successfully implemented the 3D Secure project. The implementation of the 3D Secure protocol for all Visa and Master debit and credit cards issued by Halkbank AD Skopje contributes for the highest safety standards for secure internet payment (3D Secure-Verified by Visa- VbV and MasterCard Secure Code).

The implementation of 3D Secure - Verified by Visa – VbV and MasterCard Secure Code protocol provides an additional verification of internet transactions and each customer receives SMS with OTP (one-time password) at the moment of performing the transaction, ensuring more confidential and secure approach for the benefit of our clients.

Growth is our aim

This year we continue with the growth of 26% of the number of debit card transactions and 20% growth of the debit cards volume. The growth of the number of credit card transaction rated up to 13%, while the growth of the credit cards volume was up to 9.2%. We use different marketing campaigns addressed to all target groups on the market which was the main reason for the growth mentioned above, which also provided stimulation and the motivation for using our cards and POS terminals by merchants.

In 2016, Halkbank AD Skopje, in cooperation with MasterCard organized a marketing campaign for promoting the payment with Mastercard debit and credit cards. Our successful cooperation with MasterCard continued in 2016 with several projects that additionally give an extensive significance to Master Card products.

With "Reach the finish line " winter and summer campaign we reached almost every client all around Macedonia by presenting the benefits of products and rewarding loyalty.



New technology is our priority

The POS terminals, from the latest Ingenico model, were one of the most attractive products in 2016. Easy to use, simple, bonus reward ability and fast processing are the characteristics that increase the merchant satisfaction and the demand of Halkbank's POS terminals. With approximately 4,900 POS machines we are covering a large portion of the companies dealing with retail activities. The growth of POS transactions was around 30%. Inactive POS terminals were continuously reallocated to new merchants. This action enabled Halkbank to increase the volume by 22%.

In 2016, the number of ATMs increased by additional 7 ATMs and we finished the year with 103 ATMs. In 2016, Halkbank increased the number to 9 cash-in ATMs on the market. In addition to other competitive functionalities, customers are now able to deposit their funds through our ATMs.

HALKBANK - Smart bank

Our goal is to keep all existing clients and to acquire new ones, with new, modern and advanced e-banking services. In 2016, Halkbank implemented mobile banking for individuals and first mobile banking for legal entities in Macedonia.

In 2017, we are expecting to increase the loyalty of existing customers and to increase the number of transactions performed through alternative distribution channels, which exceeded 54% in 2016, by implementing new products, following the technologies and preparing campaigns.

INTERNATIONAL BANKING & FINANCIAL INSTITUTIONS

Ranked among the leading financial institutions in Macedonia, Halkbank marked 2016 as another successful year, once again confirming its outstanding performance in international borrowings arena, despite the challenging market outlook

By maintaining its wide correspondence network of more than 400 banks in over 50 countries, in 2016 Halkbank continued improving its position in foreign trade operations and funding sourced from international markets as a part of its sustainable international borrowing strategy.

Halkbank provided low-cost, long-term financing to customers through its strategy of expanding its branch network by offering new banking products and services for its customers designed to boost the competitiveness of SMEs and support their sustainable growth.

Thanks to Halkbank's long-term standing business relationships with international financial institutions and the domestic "exim" bank, the Bank maintained favorable financing opportunities for the projects and investments of SMEs at more competitive pricing.

The Bank deepened its relationships with some of the most reputable financial institutions, including the European Fund for Southeast Europe S.A., SICAV-SIF (EFSE), Green for Growth Fund, Southeast Europe S.A., SICAV-SIF (GGF), the European Bank for Reconstruction and Development (EBRD), the Macedonian Bank for Development and Promotion (MBDP) with funds gained from the European Investment Bank (EIB) and funds from the Kreditanstalt für Wiederaufbau (KfW).

In 2016 Halkbank obtained its third facility from the European Fund for Southeast Europe S.A., SICAV-SIF (EFSE) for SMEs and households in the amount of 15 million EUR and tenor of 5 and 10 years, and this cooperation had a significant and strong impact, particularly on developing micro and small-business customers and supporting the retail sector in Macedonia.

The same year, Halkbank secured the third facility from the Green for Growth Fund, Southeast Europe S.A., SICAV-SIF (GGF) in the amount of 10 million EUR and tenor of 8 years designed for energy-efficiency measures that help clients make significant cuts in their primary energy consumption.

In 2016, Halkbank continued delivering fast and efficient solutions to its customers for their foreign trade and payment transactions through the European Bank for Reconstruction and Development (EBRD) Trade Finance Cash Facility - Revolving Credit Agreement (RCA), which are designed to encourage environmentally sound and sustainable development of the Macedonian real economy.
The successful ongoing cooperation with the Macedonian Bank for Development & Promotion (MBDP) continued with disbursing funds from the European Investment Bank (EIB) and funds from the KfW (Kreditanstalt für Wiederaufbau), satisfying clients' needs for fixed assets, working capital and suitable housing loans for individuals.

Halkbank will continue to work on increasing its market share to secure low-cost and long-term funding facilities from the international markets to provide alternative financing by offering new banking products and services for its customers.

Treasury Management

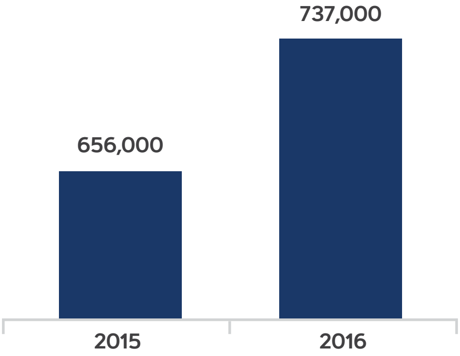
During 2016, all treasury activities were optimal, securing adequate treasury management with appropriate level of liquidity coverage and treasury income accordingly.

Overview of treasury activities during 2016 are integrally specified as follows:

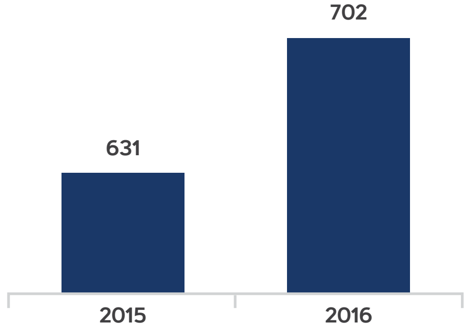
- Sales activities (Fx market with clients),
- Interbank Fx and MM trading-domestic market
- Fx trading and MM-international interbank market, and
- Trading with securities (domestic: primary, secondary and repo market).

Sales & Fx trading

- Total turnover in 2016 compared to 2015 on Fx market increased by 12.35% or total amount of 737 million EUR .
- Market share in the sector in 2016 compared to 2015 increased by 9.2% or at 10.58% taking the 5th place in the sector.
- Turnover in 2016 compared to 2015 as market maker on interbank Fx market was increased by 29.5%
- Net Fx income in 2016 compared to 2015 increased by 11.2% or 702.000 EUR.

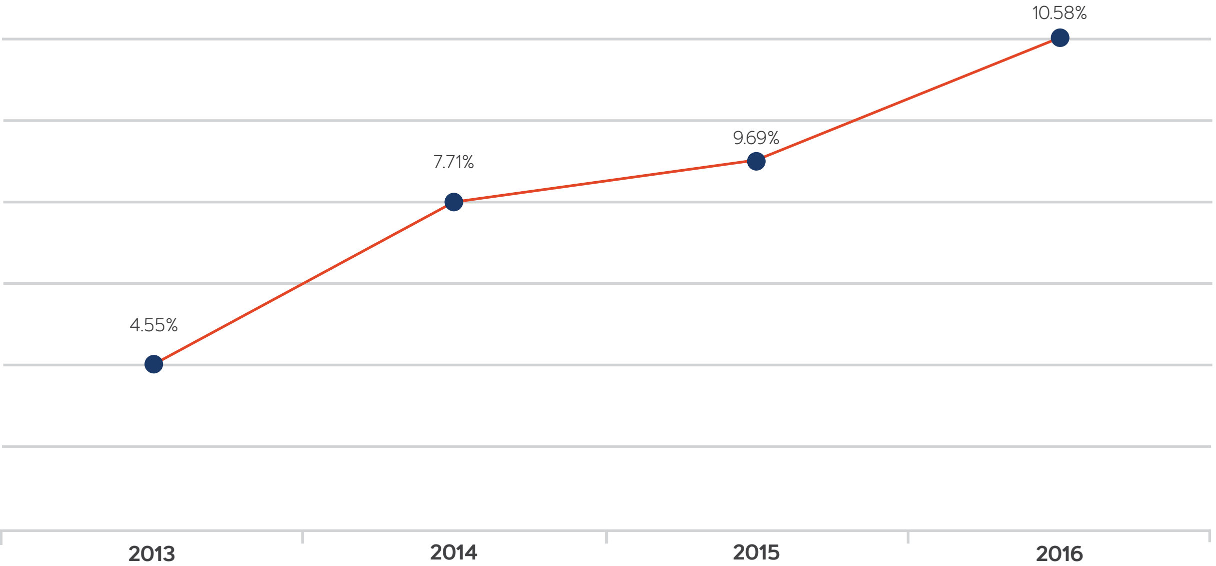


Total FX Turnover (mil. EUR)



FX Net trading income (mil. EUR)

Fx MARKET SHARE



Securities Trading

- Total securities portfolio (T bills, T notes, T bonds) in 2016 compared to 2015 increased by 24.47% or total 96.6 mil. EUR
- Total fixed income (securities and MM) in 2016 compared to 2015 increased by 23% or EUR 2.6 mil EUR.

Perspectives

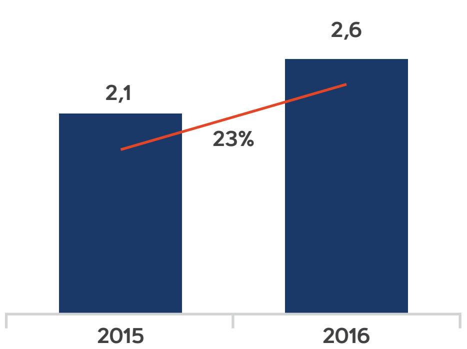
Expectation for securities investment during 2017 seems to be oriented towards:

- Keeping appropriate portfolio as high liquid assets in positive correlation to credit activity;
- Intensive OTC and repo market as a useful tool for liquidity management and on commercial basis;
- Targeting market maker (primary dealer) role on security market;

Projects for financial consulting and practical specialized in-house education in offering advanced financial instruments-derivatives, products and services in scope of:

- Hedging instruments;
- Investment instruments;
- Investments in international securities (portfolio investments and structured products);
- Trading platforms for clients (Fx trading-white label);
- Brokerage services;
- Custodian services.

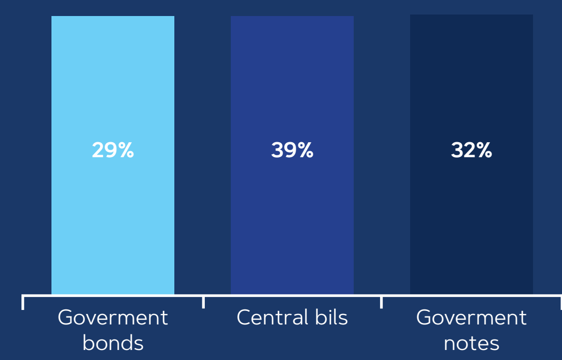
Total fixed income from securities trading, repo and money market (in mil. EUR)



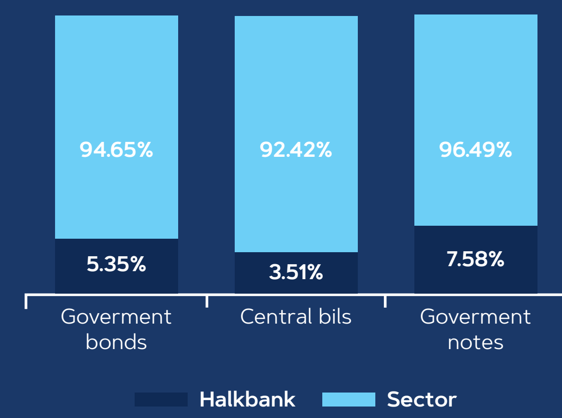
*in mil. EUR

Description	2015	2016
Total	79,5	96,6
T-bills	31,4	27,2
T-notes	25,2	55,4
T-bonds	22,9	13,9

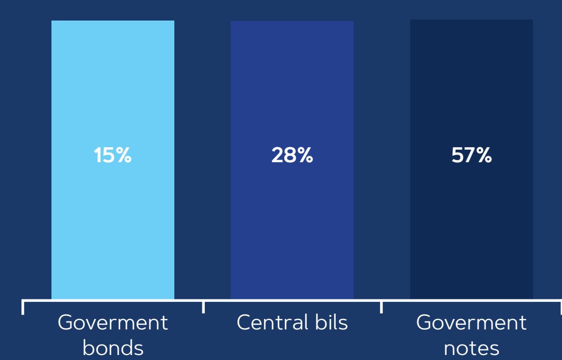
Participation in the securities portfolio 2015



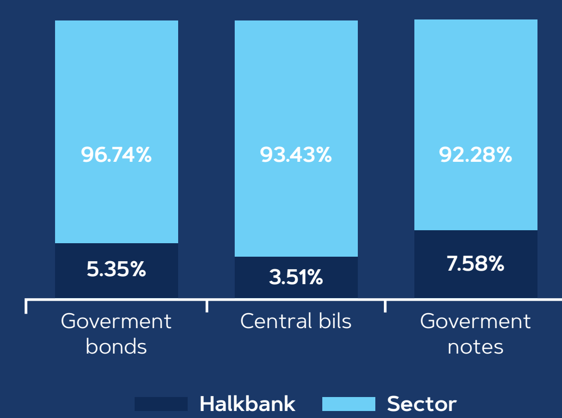
Participation of Halkbank on the market 2015



Participation in the securities portfolio 2016



Participation of Halkbank on the market 2016



Domestic Payment and Cash Center

Domestic Payments

As payment operations carrier, HALKBANK has developed a fast, efficient and high-quality system for performing payment operations, as one of the basic functions in banking operations, which offers its clients tailor-made services.

The Bank has wide variety of products and services for opening and administrating clients' accounts in order to ensure successful performance of transactions in domestic payment operations.

By opening an account, Halkbank clients can make payments as follows:

- Internal payment operations for payments between Halkbank clients.
- External or inter-banking payment operations (payments between clients from two different banks) executed through systems of settling.
- Execution of non-cash and cash transactions

The number of active transaction accounts in HALKBANK AD Skopje at the end of 2016 was 172,391: 155,663 accounts belong to citizens and 16,728 to corporate clients. Compared to the end of 2015 when the number of active accounts was 154,921, now the number of active accounts has increased by 11.3%.

In 2016, new 17,470 transaction accounts were opened, out of which 16,372 belong to citizens and 1,098 to corporate clients. In 2016, domestic payments transactions executed through our Branches have increased by 15.36% and reached 2,504,483 transactions, compared to 2,170,880 in 2015.

E-banking transactions in 2016 have increased by 23.7% and reached 979,019 transactions, compared to 790,768 transactions in 2015. In 2016, the Domestic Payment Unit executed 20,017 decisions for blocking / unblocking client accounts, which is 6.5% more compared to 18,780 in 2015.

Cash Center

HALKBANK's Cash Center is responsible for: transport of cash, taking cash from client's premises by hiring special transport company and depositing cash to client accounts and delivering coins to clients for daily usage.

Our Cash Center is responsible for processing, buying and selling domestic and foreign currencies, transfer of foreign currencies abroad in correspondent banks, filling of ATM with cash, organization of transporting cash to and from branches, National Bank of the Republic of Macedonia and other commercial banks.

Cash activities in 2016 were successfully performed under the NBRM Decision on authenticity and fitness checking, and recirculation of banknotes and coins.

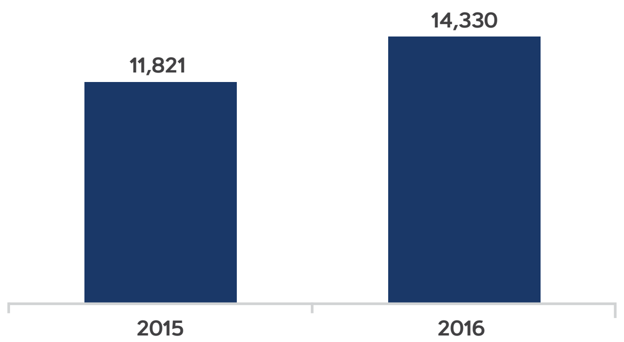
Foreign operations

Western Union/2015

We offer Western Union products and services in 33 branches across the country.
All branches are provided with a direct electronic access to the WU network which ensures a maximum speed for customer's service. In most cases, cash transfer transactions are performed within 10 minutes. During 2015, we managed to increase the number of transactions by 16% annually (2015/2014).

Western Union/2016

We are offering the opportunity of fast money transfer through the 37 Halkbank branches together with Western Union. Any of our 37 branches will transfer your money to the desired destination in a fast and effective way.



Number od WU transactions

Foreign Operations/2015

Our motto is to be a bank at our clients' side - both in cash management and international business. We will continue to give professional support to our clients by optimizing their needs and requirements. In 2015, we successfully provided our customers with adequate advice on payment processing. This has led to an increase in the total turnover in international payments by 20% annually (2015/2014).

Foreign Operations/2016

Halkbank offers high-quality, fast and efficient operations in the field in International payments. By using our extensive correspondent network, clients of Halkbank are enabled to perform international payments in the simplest and most convenient way.

In 2016, Halkbank became member of the Standardized Corporate Environment (SCORE) which is administered by SWIFT where members can interact with financial institutions.

The growth trend of the number of transactions continued in 2016. We increased the number of transactions by 18% from 40,118 (2015) to 47,311 (2016) annually.

Documentary Business/2015

Our extensive network of foreign correspondent banks not only helps us to manage our customers letters of credit in a highly professional way, but also ensures prompt and reliable settlement of documentary collections.

Documentary Business/2016

Halkbank has a team of qualified and professional specialists offering its customers high-quality service in compliance with International standards and fast document processing. Halkbank will assist you in reducing your expenses on conducting international documentary operations by using L/Cs, Guarantees and Documentary Collections.

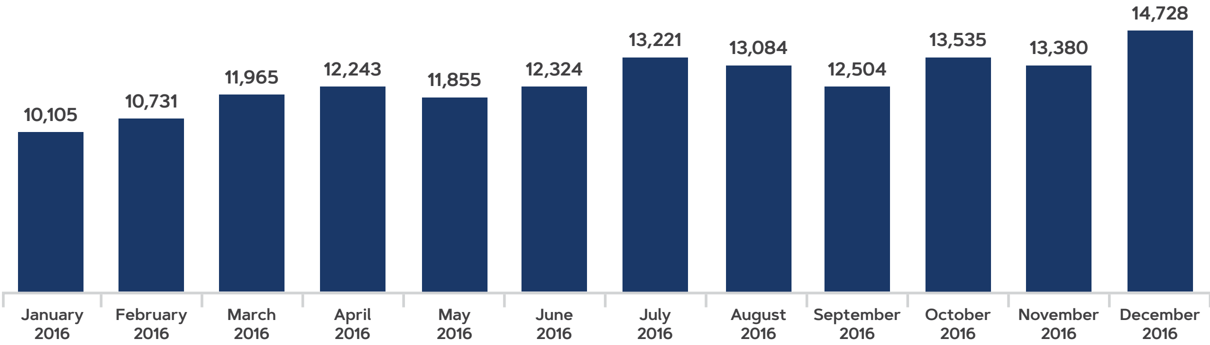
IT and Technical Support

In 2016, Halkbank introduced several innovative products to address the needs of our clients. The new Mobile Banking System for both Corporate and Retail clients brought the most advanced technology to the banking market, while providing exceptional user experience and ease of use.

The newly implemented Credit Scoring System will further improve the speed and agility of the Bank towards the clients and bring greater customer satisfaction. Payment cards products were enriched by the introduction of the MasterCard® Platinum card in 2016.

Continuous Growth Support

The annual growth of 31% of transactions processed per month in the period from January 2016 to December 2016 was supported by the upgrade of the core banking IT infrastructure.



Transaction per month (in 000)

Continuous improvement of controls and systems to decrease operating risk

As a direct result of the continuous improvement, the Bank has been certified with the PCI-DSS standard which helped strengthen the infrastructure and has made it safer and more resilient to current cyber risks. Risks are further minimized by the Disaster Recovery location upgrade project which will include all systems of the Bank.

Halkbank's Branch Network

Extensive Branch Network

In 2016, HALKBANK AD Skopje continued increasing its branch network and focused on high quality and fast service and products to meet the needs of its clients.

By the end of 2016, HALKBANK's branch network reached 37 branches in Macedonia located in 20 cities. Out of the total number of branches, 18 are located in the capital city of Skopje and 19 in other cities throughout the country.

Opening New Branches and Continuous Reorganization

The process of opening new branches continued in 2016. During the last year, Halkbank opened 3 new branches, two of which are in the capital city of Skopje, the Bunjakovec Branch and the Drachevo Branch and one branch is in the city of Debar.

Moreover, reorganization and renovation of some of the branches continued during 2016. With reorganization and renovation of current branches, Halkbank continues implementing its strategy aimed at maximizing customer satisfaction. By opening new and modern branches and improving the ambience in the current branches, Halkbank is getting closer to its clients.

In 2016, the Negotino and Bitola Branches were renovated in order to improve their interior and efficiency, and three of the existing branches, Negotino, Bitola and Kisela Voda in Skopje, were relocated to new locations providing even better access and service for its clients in the respective regions.

The strategy of continuously changing and investing in the interior and exterior of our branches and equipping them with the newest technology proves one of the main goals of Halkbank – our customer orientation and constant care for their satisfaction.

HR department – Journey to the progress

By recognizing the human capital as the most important asset of any company, the most important factor for the growth and development of the business environment and a key element in building recognizable corporate culture and customer relations, Halkbank AD Skopje values the Human Resources Management among the core business functions, essential to organization's effective operations.

The Human Resources Department continued to play its supporting role to the Management of the Bank in fulfilling the general strategy of the company. The HR Department followed the Bank's strategic growth through its recruitment and selection for employment of young, ambitious and enthusiastic new staff and, at the same time, by continuing to build effective and productive teams of employees in different organizational parts of the Bank and in the Branches, especially the newly opened ones.

Especially in the field of observing and evaluating the existing staff, determining their future potential, making individual approach for specializing employees for different areas of banking, the HR Department pushed forwards the Bank's strategy to fill in the upper structure positions primarily from the exciting staff. That concept keeps the employees more motivated, being aware in which way their career path can and should develop.

Depending on the needs of marketing support, the organizational chart of the Bank continued its development by restructuring several departments and breaking them into units to ensure more efficient and more specialized approach. The HR Department continued working on building positive atmosphere within the organizational units with individual approach to the employees and their needs and demands, focusing on further development of corporate culture that would help retain staff and key personnel.

Finally, in the part of the social responsibility, the HR Department continued its close participation in the project for support of young unemployed workforce in Macedonia, in cooperation with the Agency of Employment Services, by providing the necessary work experience to graduates. The benefit for society was an opportunity for young non-employed freshly graduated candidates to gain working environment experience, while on the other hand, for the HR Department, it was a successful tool to make additional pool of future candidates for employment by giving them real on-the-job experience within the Bank regular activities. In 2016, through this project, the Bank hired 19 candidates for a period of three months, supporting the ongoing processes in the everyday working activities of the Bank.

Moreover, in 2016, student internship was also organized in coordination with Macedonian Universities. Thus, a total of 87 interns got the opportunity to work for Halkbank A.D. Skopje and to improve their practical skills and knowledge in a real business working environment, but at the same time, to support the ongoing working processes in the Bank. Another benefit from these programs is on-the-job assessment of the interns as potential candidates for the future needs of employment in the Bank.

Employee Investment – the Core of Business Development

In the field of training, the HR Department continued its ambition to offer variety of opportunities to the employees to develop their personal competences and skills. The main focus in 2016 remained managerial soft skills trainings in order to keep up with the emerging responsibilities of the middle management structure with the new staff, employee transfers, relations and motivation of their staff. Internal and external trainings during 2016 reached the number of 67 in total. Various on-the-job trainings were also organized with the aim of knowledge transfer. The detailed approach to this area shows that the external trainings with experts outside the Bank were visited 56 times by Halkbank employees and 11 internal trainings were organized. There was 1 visit to the premises of Halkbank Turkey by selected employees from Halkbank Skopje.

Branches 2016	37
Based in Skopje	18
Other cities in Macedonia	19

Number of employees	2016
31.12.2013	377
31.12.2014	403
31.12.2015	431
31.12.2016	461

Employees per location	2016	in %
Head Office	166	36%
Branches	295	64%

Educational Structure	2016	in %
University education	413	90%
Master's Degree	40	
Bachelor's Degree	373	
High School	48	10%

PR & Social Responsibility

Growing together with our society

Corporate social responsibility in Halkbank takes many forms in the process of delivering a long-term value for the society. In Halkbank, we are constantly looking for ways to make a positive impact and contribute in the society beyond our core business.

Our strategy for growth and development focuses on building a more sustainable bank, a more responsible company, and we are doing business in a more sustainable way.

Through the past years, with its donations the Bank offered support to a number of segments in the society and to individuals who needed help the most. We support different types of projects that contribute to the development of the education and culture in the country, projects that empower the next generation to achieve their full potential and help to remove social and economic barriers, sport projects and projects that contribute to embedding sports habits amongst the younger generation.

In 2016, Halkbank has supported several educational institutions by material and knowledge sharing.

Many of the activities we support are of educational character, important for the culture and education of the society, by providing funds to support many local events and contribute to better quality of everyday life of citizens.

We believe that all young people should be given the best chance in life to achieve their full potential and to become citizens that will drive the prosperity of this country. Therefore, in 2016 we gave our support to education-led projects implemented by high schools and universities in the country, focused on boosting and encouraging young people's talents and motivating them to continue developing and fulfilling their dreams and ambitions.

Another key focus in 2016 in proving our social responsibility to the community was to offer unconditional support to the culture segment in the society, especially for smaller projects in local communities that needed a boost from the business sector in times of limited resources for accomplishing their ideas and visions.

Our partnerships with local institutions represent a real attempt to make culture available to all.
We have extended and continued our previous collaboration with some long-term partners and also made new partnerships.

In these terms, we have been a loyal partner of the only Turkish Theater in the country, paving their way to becoming a real cultural institution, supporting them in different ways, from financial to PR and marketing support. Traditionally, we have been helping many local events in launching their projects throughout the country. Each year, we are trying to give our support to as many local events as possible, from the International Spring Festival in Valandovo - "Hid Bah Shen Fest" to "The Days of Rice", a traditional manifestation in Kocani and "Samun em Tatlija" festival held in Radovish , just to name a few.

Continuously and every year, Halkbank carries out its CSR strategy by taking part in many sports projects, especially the ones conceptualized to involve children and young people to develop their sport talents. Halkbank was a proud sponsor of the second Children's Handball Camp under the auspices of the most famous handball player in the country, Kiril Lazarov.

Participating in sport can help to build confidence, foster integration and develop skills. We partner with community organizations to create new perspectives for young people.

At Halkbank, we give big importance and focus on the development and growth of our people. By offering a workplace that provides opportunities for career and personal fulfillment, we build a reputation as an employer of choice. At the same time, we succeed in attracting and retaining talented, motivated and engaged individuals by providing them a working environment where they will be satisfied and work in positions compatible to their skills and knowledge, with significant chance for further professional and personal development.

The ecological dimension relates to efforts of the Bank in investing in projects that try to create a balance between the need for economic growth on one hand, and maintaining a healthy environment, on the other. Distinct attention is focused on saving energy, paper and electronic waste recycling.

However, disasters often impact those who are already disadvantaged the most. Halkbank and its employees offer their full support to the victims affected by natural disasters where instant and unconditional support is crucial. Once again, Halkbank team showed this humanitarian side offering its financial help to the families that were victims of the terrible flooding that hit several regions in Skopje.

In Halkbank, we believe that our business can only prosper if society around us is prospering. Companies are part of society. They require a stable social environment to operate and therefore need to contribute their share to maintain this stability.

GROWING TOGETHER



Halkbank AD Skopje a proud sponsor and partner of the Children's Handball Summer Camp - "Kiril Lazarov 7" for the second time this year;
More than 300 children participated in the camp and had the chance to be mentored and trained by the best Macedonian trainers and handball players led by Kiril Lazarov itself .
As one of the partners of the camp, Halkbank prepared gifts for the children that celebrated their birthdays on the camp , children's saving booklets with an initial saving amount in order to promote healthy saving habits among the youngest ones.

Team building weekend in Hotel Izgrev, Struga

Management Information & Corporate Governance

Supervisory board of Halkbank AD Skopje

As of 31.12.2016

Ömer Faruk Şenel

President of Supervisory Board

Ömer Faruk Şenel was born in Konya in 1969. He graduated at the Middle East Technical University, Department of Economics. He has Master's Degree in Business from the Fatih University. He began his career at Ziraat Bankasi in 1991 as an assistant specialist. He continued his career at Esbank T.A.S. from 1992 to 2002 as an assistant auditor, Deputy Manager of Bayrampasha Branch, auditor, manager of resource development and cash management department. From 2002 to 2011, he worked in Asya Katilim Bankasi AS as Manager at Gebze Branch, Manager of Human Resource Department and as Executive Vice President. In the period of 2011 – 2014 he worked as Executive Vice President in Birlesik Fon Bankasi. Since July 2014, he is working as Executive Vice President in Halk Bankasi AS Turkiye.

Hilali Yıldırım

Member of Supervisory Board

Hilali Yıldırım was born in Kaman, Kırşehir in 1973. He graduated from the Department of Computer Programming at the Yıldız Teknik University. In 1997 he graduated from the Department of Business at the University of Marmara. At the same time, he attended the Institute of Economics and Business. He has a Master's Degree in Banking and since 2012 he has been preparing his doctoral dissertation in Business at the University of Maltepe. He began his professional career in TC Ziraat Bank, Mecidiyeköy in Management systems and was a Branch Manager of Credit Cards. Three years later, he started working as Deputy Inspector, Deputy Director and Inspector at Esbank T.A.Ş. He later served as Deputy Director at TKB Branch Şişli, Senior Inspector and Branch Director at Family Finances Kurumu A.S. and Director of Internal Audit at Asya Bank. He used to work in Finance and Operations at Financial operations, IT Operations. Yıldırım has been serving as Counselor of the Executive Director at Halkbank, Turkey since 2014.

Bilal Sucubaşı

Member of Supervisory Board

Dr. Bilal Sucubaşı was born in Darende, Malatya in 1972. He graduated from the Faculty of Economics and Administrative Sciences at the University of Erciyes. Sucubaşı continued his education at the Department of Business, Management, Organization Department, Malatya at the University of İnönü. He has a Master's Degree and a Doctorate Degree. He began his professional career as a teacher in Darende and used to be an intern at Counseling Finance, Malatya. He later worked as a clerk at Darende Branch, Deputy Head of the Directorate for Organization, Branch Manager in Aksaray / Ortaköy, Director of the Marketing Department of the individuals in the Regional Coordination Centre Diyarbakır, Manager of Corporate Marketing, Director of the Commercial Branch in Mersin, Director Department of Corporate Marketing at Halkbank, Turkey where he currently works.

Korkmaz Kaya

Member of Supervisory Board

Mr. Korkmaz Kaya was born in Zonguldak in 1968. He graduated from the University of Ankara, Faculty of Media, Journalism and Public Relations Department. He began his career as a credit officer in Osmanli Bankasi A.S. in 1993. Afterwards he worked as corporate marketing officer in Demirbank A.S. for 3 years from 1995-1998. In 1998 he was appointed as Branch Manager in Egebank A.S. In 2011 he continued his career until 2003 as a Branch Manager in Sekerbank A.S. In the period 2003-2005, he worked as Branch Manager in Denizbank A.S. In the period 2005-2014, he worked as Branch Manager in various branches in Asya Katilim Bankasi A.S. Mr. Kaya has also been a Supervisory Board member in Halk Factoring in the period 2014-2016. From May 2014 he works as Director of SME Marketing Department in Halkbank A.S.

Boris Petrovski

Independent Member of Supervisory Board

Boris Petrovski was born in 1950 in Bitola. He graduated from the Ss. Cyril and Methodius University, Faculty of Law in Skopje. He began his career as Junior Legal advisor in LVK Lozar in 1975. He became Branch Manager in 1992 at IK Banka Bitola Branch.

Between 2001 and 2011, he was Deputy General Manager and General Manager at IK Banka AD Skopje. In May 2011, he was appointed as Supervisory Board Member of HALKBANK AD Skopje.

Biljana Angelova

Independent Member of Supervisory Board

Ms. Biljana Angelova was born in Skopje in 1965. She graduated from the Ss. Cyril and Methodius University, Faculty of Economics in Skopje. She has a Master's Degree and a Doctorate Degree from the Faculty of Economics. She started her career in 1992 as an assistant in the Institute of Economics, Department of Business Finance, and then became assistant researcher in 1993, assistant professor/ scientific researcher in 1999 and scientific advisor, full-time professor in 2004, which is still ongoing. In the period 2006-2008, she was appointed as Head of Department for International Management at University Ss. Cyril and Methodius in Skopje - Institute of Economics. From 2008 onwards, she has worked as Head of Department for Financial Management and from 2009 onwards, she has been Director of the Institute of Economics, University Ss. Cyril and Methodius in Skopje. In 2016 she was appointed as Independent Member of Supervisory Board.

Management Board

Turhan Ademi

Acting Chief Executive Director

After graduation from the Financial Accounting and Banking Department at the Faculty of Economics in Skopje, Mr. Ademi starts his career in JIK Banka at the credits and liquidity division of Skopje Branch. His professional career starts ascending in 1994, by the time he is active in IK Bank. In 1995, gains various positions as a Manager of Credit, Treasury and Liquidity Division, Manager of the Brokerage Department; as well as Acting Manager of IK Banka Branch Office Bitola.

Important highlight in this period from 1995 to 1996 is the position of the Acting General Manager of IK Bank. Further milestone in Mr.Ademi's rising career is the position of Senior Vice President at Ziraat Banka AD Skopje from 1999-2001. Shortly after, in March 2001 he is being promoted as a General Manager which among other responsibilities includes membership of the Risk Management Board. After the successful acquisition of Ziraat Bank AD Skopje by HALKBANK AD Skopje, Mr. Ademi's next professional challenge and responsibility is the position of Executive Director and a member of Executive Board of HALKBANK AD Skopje.

From June 2016 , his challenge becomes even greater, as Mr. Ademi has been appointed at his current position as the Acting Chief Executive Manager of Halkbank AD Skopje , where he manages the Bank in the period of a stable growth and development of the Bank and strenghting its position on the market.

Buket Gerecci

Executive Director

The professional career of Mrs. Buket Gerecci begins with an employment in Garanti Bankasi A.S. Turkey in 1990, right after finishing the formal education and obtaining a Bachelor's Degree from the University of Ankara – Political Science Faculty, at the International Relations Department in 1989. After 5 years in service in Garanti Bankasi, Mrs. Gerecci in 1995 has the opportunity to work and develop professionally in another financial institution in Turkey – Toprakbank A.S. This working engagement lasts until 1997, when she is appointed as Head of the Gaziantep Branch, within the Finansbank A.S. In 2002, a new challenge arises in her career, when she is appointed in Asya Katilim Bankasi A.S , whereas in 2008 she is promoted as Deputy General Manager and Chief Operations Officer (COO). From 2011, she continued as a Chief Financial Officer as part of another company, within the oil industry in Turkey.

Mrs. Buket Gerecci becomes part of the Halkbank family on 15.09.2014, engaged as a consultant in the Bank . On 04.03.2015 upon the official approval from the National Bank of Republic of Macedonia , Mrs. Buket continues her engagement in Halkbank A.D Skopje as Member of the Managing Board of the Bank and Executive Director. As an Executive Director, Mrs. Buket Gerecci is responsible for the Division for HR and Organization and the Division of Operations and Information Systems until 15.12.2016, when she takes the Marketing Division and the Division of Operations and Information Systems under her responsibility.

Tomche Tasevski

Executive Director

Mr. Tasevski is a graduate economist in bank management at the Faculty of Economics in Skopje. His 26 years lasting banking carrier started in 1990 in Ljubljanska Banka as a loan officer for SME's. During his service has worked in three banks in Macedonia and one MFI – Opportunity International, on the positions as a client relationship manager, chief credit officer and deputy general manager, respectively. Since 2002, he has been in Halkbank AD Skopje (former Izvozna i Kreditna Banka) on position of Operational Director and Corporate Division Manager. In 2009, Mr. Tasevski is being promoted as an Executive Director and member of Managing Board. Since 2011, he is president of Risk Management Committee. Also, he is ALCO and Credit Committee member. Currently, Mr. Tasevski remains on position of Executive Director within the Executive Board of Halkbank Skopje. He manages various projects and achieved targets and plans in the improvement of lending processes, branch network development and risk management. He takes active roles in more than 20 specializations in Germany, Italy, G. Britain and Far East. Special Certificate by Bankakademie International Frankfurt he has obtained in the field of steering of on-lending of MSE's. Mr. Tasevski as an expert has been panelist and active member on several annual meetings and conferences, such as, the Plenary Session of MFI in Budapest on the topic "Learning Lending Together", the Annual Conference of EFSE on own topic "Housing Loans" and the Annual Conference of GGF on topic "Green Projects". In the period 1998-2010 he has been a member of the Board of Trustees in the Macedonian Enterprises Development Foundation achieved positive and successful results supporting start up projects, micro businesses and entrepreneurship in the rural regions.

Management Board & Senior Management

Bojan Stojanoski
Division Manager

Derja Hamza Seferi
Division Manager

Tomche Tasevski
Executive Director

Turhan Ademi
Acting Chief Executive Director

Buket Gerecci
Executive Director

Aleksandar Iljov
Division Manager

Organizational Structure

- **Supervisory board**
  - Risk Managemaent Department
  - Legal Affairs Department
  - Internal Audit Department
  - Internal Control Department
  - **Turhan Ademi** Acting Chief Ecexutive Director
    - Public Relations
    - **Tomce Tasevski** Executive Director
      - Division of risk collection and liquidation, compliance and information security
        - Risk collection and liquidation
        - Compliance and AML
        - Information Security
      - Division of Financial Management and Planning
        - Financial Management and Planning
    - **Turhan Ademi** Executive Director
      - Division of Credits
        - Corporate and SME Credit
        - Retail Credit
        - Credit Analysis
        - Loan Policies and practices
      - Division of HR and organization
        - HR, Organization and Training
        - Administrative services
        - Quality and Compliant Management
      - Division of Treasury and International Banking
        - International Banking and Financial Instructions
        - Treasury management, money and capital markets
    - **Buket Gerecci** Executive Director
      - Division of Marketing
        - Corporate Marketing
        - SME Marketing
        - Retail Marketing
        - Payment card systems and Alternative Distribution Channels
        - Deposit and Cash Management
      - Division of operations and information system
        - Information Systems and technical support
        - Operations
        - Foreign Operations

Supervisory Board's Report

Within the frames of the legally defined competences and main acts which regulate the Business Policy of the Bank and its main objectives, the Supervisory Board performed its duties during 2016. Its duties were determined in line with Bank's strategy, giving suggestions and directions for undertaking measures and activities for successful maintenance of Bank's position in the banking system, following the trends and news, improving receivables collection, harmonization of its performance with the market needs, etc. All members of the Supervisory Board gave active and significant contribution in the functioning of the Board. The decisions of the Supervisory Board were made in a transparent and documented manner, based on a complete and objective assessment. According to the principles of good corporate management, the Supervisory Board realized good cooperation with the Management Board, Risk Management Committee, Audit Committee and the Internal Audit, without participating in the daily management of the Bank. This manner of operation of the Supervisory Board contributed to stable, safe and efficient management and appropriate supervision over Bank's bodies and their operation. All listed Members of the Supervisory Board have knowledge and qualifications necessary to carry out their tasks and have the substantial and practical knowledge of the Bank activity, taking into account its specificity. The selection of the Members of the Supervisory Board reflects the care for diversity of their professional experience, knowledge and skills.

All Supervisory Board members listed in the table were focused on implementation of internal credit rating, system and the qualitative classification of loan customers, which was an important turning point in managing the quality of credit risk management and also served as a basis for advanced corporate governance tools in the coming years. All the Supervisory Board Members hold university degrees with management capacities. Moreover, the Supervisory Board Members are very active in the economic and legal life of Macedonia and Turkey. The table no. 1 shows the list of the Supervisory Board Members of Halkbank A.D Skopje for 2016 (SBM).

	Licensed on	Member till	Title
1. Mustafa Aydin	29.12.2014	06.07.2016	SBM
2. Bilal Sucubasi	29.12.2014	29.12.2018	SBM
3. Erol Goncu	07.09.2015	27.09.2016	SBM
4. Hilali Yildirim	29.12.2014	29.12.2018	SBM
5. Boris Petrovski	07.09.2015	07.09.2019	ISBM (independent)
6. Sonja Petrusheva	17.12.2012	06.07.2016	ISBM (independent)

With the changes in the structure of 08.06.2016, the Supervisory Board continued to work with the following structure showed in the table no. 2

	Licensed on	Member till	Title
1. Omer Faruk Senel	08.06.2016	08.06.2020	PSBM
2. Mustafa Aydin	29.12.2014	06.07.2016	SBM
3. Bilal Sucubasi	29.12.2014	29.12.2018	SBM
4. Erol Goncu	07.09.2015	27.09.2016	SBM
5. Hilali Yildirim	29.12.2014	29.12.2018	SBM
6. Boris Petrovski	07.09.2015	07.09.2019	ISBM (independent)
7. Sonja Petrusheva	17.12.2012	06.07.2016	ISBM (independent)

With the Decision of the General Assembly of 27.06.2016, Mr. Mustafa Aydin and Ms. Sonja Petrusheva were dismissed from their function and the Supervisory Board continued to work with the following structure showed in the table no. 3;

	Licensed on	Member till	Title
1. Omer Faruk Senel	08.06.2016	08.06.2020	PSBM
2. Bilal Sucubasi	29.12.2014	29.12.2018	SBM
3. Erol Goncu	07.09.2015	27.09.2016	SBM
4. Hilali Yildirim	29.12.2014	29.12.2018	SBM
5. Boris Petrovski	07.09.2015	07.09.2019	ISBM (independent)

With the changes in the structure of 12.09.2016, the Supervisory Board continued to work with the following structure showed in the table no. 4;

	Licensed on	Member till	Title
1. Omer Faruk Senel	08.06.2016	08.06.2020	PSBM
2. Bilal Sucubasi	29.12.2014	29.12.2018	SBM
3. Erol Goncu	07.09.2015	27.09.2016	SBM
4. Hilali Yildirim	29.12.2014	29.12.2018	SBM
5. Korkmaz Kaya	24.08.2016	24.08.2020	SBM
6. Boris Petrovski	07.09.2015	07.09.2019	ISBM (independent)
7. Biljana Angelova	24.08.2016	24.08.2020	ISBM (independent)

After the resignation of Mr. Erol Goncu, the Supervisory Board continued to work with the following structure showed in the table no 5 :

	Licensed on	Member till	Title
1. Omer Faruk Senel	08.06.2016	08.06.2020	PSBM
2. Bilal Sucubasi	29.12.2014	29.12.2018	SBM
3. Hilali Yildirim	29.12.2014	29.12.2018	SBM
4. Korkmaz Kaya	24.08.2016	24.08.2020	SBM
5. Boris Petrovski	07.09.2015	07.09.2019	ISBM (independent)
6. Biljana Angelova	24.08.2016	24.08.2020	ISBM (independent)

Executive Management Board

In 2016, the Executive Management Board was in permanent coordination with the Supervisory Board of the Bank in a very comprehensive manner that made all operational processes of the Bank transparent. In compliance with the adopted organizational scheme, the rights and responsibilities were distributed to every single Executive Management Board member who monitored daily activities of particular divisions, departments and branches of the Bank. In general, on daily basis they were monitoring the activities and work results of the organizational units of the Bank and on quarterly basis, they measured performances of branches and sub-branches of the Bank.

The Executive Management Board of HALKBANK AD Skopje is composed of four members who represent the Bank and manage its regular activities.

The following table shows the list of the Executive Management Board Members for the year 2016 (EMBM).

	Licensed on	Member till	Title
1. Necdet Palakci	27.06.2012	03.06.2016	CEO
2. Turhan Ademi	29.01.2013	ongoing	EO
3. Buket Gerecci	10.03.2015	ongoing	EO
4. Tomce Tasevski	21.08.2015	ongoing	EO

With the Decision of the Supervisory Board from 30.05.2016, Mr. Necdet Palakci was dismissed and Mr. Turhan Ademi was appointed as Acting CEO until appointment of new CEO. Above mentioned changes were registered in the Central Registry of the Republic of Macedonia on 03.06.2016.

On the regular meetings, within the scope of its authorizations, the Management Board has taken a number of actions and adopted a number of work instructions, procedures, guidelines, plans, rulebooks and performed modifications, amendments and corrective measures.

The Executive Management Board in 2016 focused its work towards stable, compliant and effective operation of the Bank by rising the position of the Bank in the banking sector in Macedonia, through planning new products and services, as well as development of the existing ones through its own business units, by increasing the network of branches, increasing the volume of the card operations and E-Banking, reducing the operational costs, while constantly taking care of the compliance of the work of the Bank through harmonization of its regulations and operations with the laws and bylaws.

Corporate Governance

The corporate management of the Bank represents collection of mutual relations between the Board of Directors, the other persons with special rights and responsibilities executing managerial function in the Bank, the Supervisory Board, the shareholders of the Bank and other interested parties.

Shareholders Assembly

In the course of 2016, 1 (one) General Shareholders' Assembly and 2 (two) Extraordinary Shareholders Assembly were held. At the Extraordinary Shareholders Assembly held on 10.03.2016, it was decided on the adoption of Decision on appointment of member of the Supervisory Board; Decision on appointment of member of the Audit Committee; Decision on membership fee for the Supervisory Board and the Audit Committee. At the General Shareholders Assembly held on 27.06.2016, it was decided on the adoption of the Annual Report for 2015 and the written opinion of the Supervisory Board; the Annual Account of the Bank for 2015; the Financial Statements of the Bank for 2015, prepared in compliance with the accounting regulations of Republic of Macedonia, the International Financial Reporting Standards and the International Accounting Standards, audited by the audit company; the Report of the Audit Company for 2015 and the written opinion by the Supervisory Board in the same regard; the enactment of a Decision on distribution of the profit for the year ending on 31 December 2015; Decision on the use and distribution of transmitted and accumulated profit from previous years, with Draft Decision; Decision on determining the amount of the dividend and payment date of the dividend for accumulated profit from previous years and the profit for 2015; review of the Annual Report on the operation of the Supervisory Board in 2015 by individual members and collectively; review of the Annual Report on the operation of the Internal Audit Division for 2015 and written opinion by the Supervisory Board; review of the Annual Report on the operation of the Audit Committee in 2015 by individual members and collectively; revision of the Corporate Management Code, adoption of a Decision on selection of an audit company; adoption of Business Policy and Financial Plan of the Bank for 2015; adoption of the List of net debtors of HALKBANK AD Skopje; Decision on dismissal of regular and independent members of Supervisory Board and Audit Committee; Decision on appointment of regular and independent members of the Supervisory Board and Audit Committee. At the Extraordinary Shareholders Assembly held on 29.06.2016, it was decided on the adoption of Decision on increase of the nominal capital of Halkbank AD Skopje by issuing shares through a private offer with the XII issue of shares to an institutional investor, with Draft Decision; Decision on adoption of amendments to the Statute of Halkbank AD Skopje, with Draft Decision.

Audit Committee

In 2016, the AC has held five meetings, in March, May, October and December. Out of the five meetings of the Audit Committee, four were regular and one additional meeting was held via teleconference. At the meetings, AC discussed the main issues regarding of Bank's operations and results as follows: Board of Directors reports for certain months in 2016 and financial statements of the Bank for 2015; activities undertaken to implement the recommendations of the National Bank of the Republic of Macedonia of audit conducted in the first quarter of 2015 over the credit, liquidity and the operational risks of the Bank; information on the efficiency and effectiveness of the established internal control systems; information from the audits of Bank's processes, Branches/Sub-Branches and other IAD activities; compliance of Bank's operations with the regulations and other current issues. Additionally, important points were discussed during the meetings regarding the External Auditor Report for 2015; proposal for external audit company for 2016; Annual Report of the AC activities in 2015 and Quarterly Reports for the AC activities in 2016; Annual, Semiannual and Quarterly Reports of IAD activities in 2016; IAD Annual Audit Plan for the 2017, as well as improving the internal acts regulating the IAD's activities at the request of the internal auditors of HalkBank Turkey. As part of the standard procedures, the AC reviewed the quarterly reports of 2016 submitted from the Compliance and AML Department and the Risk Management Committee.

Information on the number and composition of the Risk Management Committee

Pursuant to the Law on Banks and the Statute of HALKBANK AD Skopje, the Risk Management Committee consists of six (6) members, their mandate being 2 years. The members of the Risk Management Committee are appointed from the persons with special rights and responsibilities that are employed at the Bank. All members of the Risk Management Board have an adequate experience in the area of finance and banking. The Risk Management Committee carries out its activities pursuant to the Banking Law and specific risk management NBRM Decisions. In order to provide greater efficiency of its activities, in regard to timely obtaining quality information and materials for holding the meetings, at the beginning of each year, the Committee is drafting Operation Plan.

2016 FINANCIAL REVIEW

HALKBANK

Three-year summary financial information

In thousand EUR	2014	2015	2016
Cash and Cash Equivalents	72,028	57,368	81,349
Total Securities	54,135	80,072	99,752
Net Loans	275,746	335,459	381,415
Other Assets	17,002	17,368	20,027
Total Assets	**418,912**	**490,267**	**582,543**
Deposits(b)	287,571	336,435	385,549
Other borrowed Funds (b)	64,279	80,131	114,650
Other Liabilities	4,370	5,054	7,014
Shareholders' Equity	62,692	68,647	75,330
Total Liabilities	**418,912**	**490,267**	**582,543**

In thousand EUR	2014	2015	2016
Net Interest Income	14,244	17,349	20,598
Net Fees and Commissions	2,825	3,217	3,756
Net Trading Income	387	633	704
Other Operating Income	926	645	787
Total Operating Revenues	18,382	21,844	25,844
Operating Expenses	11,278	12,937	13,899
Net Operating Income	7,105	8,908	11,946
Income Before Taxes	4,937	6,733	8,594
Provision for Tax	528	710	927
Net Income	**4,409**	**6,023**	**7,667**

Halkbank AD Skopje

St "Sv. Kiril i Metodij" No. 54
1000 Skopje, Macedonia
+389 (0) 2 3240 800

halkbank@halkbank.mk
www.halkbank.mk