BANK OF CHINA SRBIJA A.D. BEOGRAD

FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2018

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This is an English translation of the Report originally issued in Serbian language (For management purposes only)

INDEPENDENT AUDITORS' REPORT

TO THE OWNERS OF BANK OF CHINA SRBIJA A.D. BEOGRAD

Report on Financial Statements

We have audited the accompanying financial statements of Bank of China Srbija a.d, Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing as applicable in the in Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Report on other legal and regulatory requirements

We have reviewed the annual business report of the Bank. Management of the Bank is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the financial statements of the Bank for the year ended 31 December 2018.

Belgrade, 24 April 2019

Danijela Mirković
for Ernst & Young d.o.o. Beograd

PREDUZEĆE ZA REVIZIJU
Ernst & Young
d.o.o. BEOGRAD

Nikola Ribar
Authorised Auditor

INCOME STATEMENT
for the period from 01 January to 31 December 2018

(in RSD thousand)

	Note	2018	2017
Interest income	4	8,505	382
Interest expense	4	(2,321)	-
Net interest income		**6,184**	**382**
Fee and commission income	5	425,644	269,757
Fee and commission expense	5	(2,730)	(9)
Net fee and commission income		**422,914**	**269,748**
Net profit on foreign exchange differences and foreign currency clause	6	102,753	3,713
Impairment losses from financial assets and credit risk off-balance sheet items	17.1	(65)	-
NET OPERATING INCOME		**531,786**	**273,843**
Salaries, wages and other personal expenses	7	(225,596)	(153,352)
Depreciation costs	8	(38,795)	(22,588)
Other expenses	9	(164,129)	(119,765)
PROFIT/(LOSS) BEFORE INCOME TAX		**103,266**	**(21,862)**
Income tax	10	(21,350)	(2,691)
Deferred tax income	10.1	5,648	-
Deferred tax expense	10.1	(3,373)	-
PROFIT/(LOSS) AFTER TAXES		84,191	(24,553)
Result for the period – PROFIT/ (LOSS)		**84,191**	**(24,553)**
EARNINGS PER SHARE		-	-
Basic earnings per share (in RSD)	11	842	(246)

Belgrade, 18. March 2019.

President of the Executive Board

Zhu Lianqi

Member of the Executive Board

Slaviša Aleksić

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STATEMENT OF OTHER COMPREHENSIVE INCOME
for the period from 01 January to 31 December 2018

(in RSD thousand)

	Note	2018	2017
Profit/(Loss) for the period		84,191	(24,553)
Other comprehensive income		-	-
Components of other comprehensive income that may not be reclassified to profit or loss		-	-
Total comprehensive income for the period		84,191	(24,553)
		-	-
TOTAL COMPREHENSIVE INCOME		84,191	(24,553)

Belgrade, 18. March 2019.

President of the Executive Board

Zhu Lianqi

Member of the Executive Board

Slaviša Aleksić

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BALANCE SHEET
as of 31 December 2018

(in RSD thousand)

	Note	2018	2017
ASSETS			
Cash and balances with Central Bank	12	2,820,173	1,694,412
Loans and receivables from banks and other financial institutions	13	24,457,428	22,067
Intangible assets	14	24,393	33,966
Property, plant and equipment	15	76,278	98,591
Deferred tax assets	16.1	5,648	-
Other assets	16	14,487	2,486
TOTAL ASSETS		**27,398,407**	**1,851,522**
LIABILITIES			
Deposits and other liabilities due to customers	17	25,426,871	171
Provisions	17.1	64	-
Current tax liabilities	10	21,596	-
Deferred tax liabilities	18.1	3,373	-
Other liabilities	18	42,978	32,017
TOTAL LIABILITIES		**25,494,882**	**32,188**
EQUITY			
Share capital	19	1,843,887	1,843,887
Gain / (Loss)	19	84,191	(24,553)
Loss from previous year	19	(24,553)	-
TOTAL EQUITY		**1,903,525**	**1,819,334**
			-
TOTAL LIABILITIES AND EQUITY		**27,398,407**	**1,851,522**

Belgrade, 18. March 2019.

President of the Executive Board

Zhu Lianqi

Member of the Executive Board

Slaviša Aleksić

STATEMENT OF CHANGES IN EQUITY
for the period from 01 January to 31 December 2018

(in RSD thousand)

	Share capital and other capital	Profit / (Loss)	Total
Balance as at 01 January of the previous year	1,843,887	-	12,257,886
Restated opening balance as at 01 January of the previous year	1,843,887	-	1,843,887
Current year profit / (loss)	-	(24,553)	(24,553)
Balance as at 31 December of the previous year	1,843,887	(24,553)	1,819,334
	-	-	-
Balance as at 01 January of the current year	1,843,887	(24,553)	1,819,334
Restated opening balance as at 1 January of the current year	1,843,887	(24,553)	1,819,334
Current year profit / (loss)	-	84,191	84,191
Balance as of 31 December of the current year	1,843,887	59,638	1,903,525

Belgrade, 18. March 2019.

President of the Executive Board

Zhu Lianqi

Member of the Executive Board

Slaviša Aleksić

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CASH FLOW STATEMENT
for the period from 01 January to 31 December 2018

(in RSD thousand)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows	429,872	270,139
Interest receipts	4,228	382
Fee receipts	425,644	269,757
Outflows	(382,675)	(248,227)
Interest payments	(1,747)	-
Fee payments	(2,731)	-
Payments to and on behalf of employees	(191,065)	(97,504)
Cash for other taxes and contributions	(65,282)	(8,822)
Outflow to other operating expenses	(121,850)	(141,901)
Net operating cash inflows before changes in placements and deposits	47,197	21,912
	-	-
Decrease in placements and increase in deposits and other liabilities	25,426,127	171
Increase in deposits to banks, other financial institutions, central bank and customers	25,426,127	171
Increase in loans and decrease in deposits and other liabilities	(24,463,943)	(22,067)
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(24,463,943)	(22,067)
Net cash inflows from operating activities before income tax	1,009,381	16
Income tax paid	(1,273)	-
Net cash generated from operating activities	**1,008,108**	**16**
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
Outflows	(6,909)	(157,261)
Purchase of intangible and property, plant and equipment	(6,909)	(157,261)
Net cash outflow from investing activities	**(6,909)**	**(157,261)**
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Inflows	-	-
Outflows	-	-
Net cash inflow from financing activities	-	-
Net cash outflow from financing activities		

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	-	-
Total net received cash	25,855,999	270,310
Total net cash payments	(24,854,800)	(427,555)
NET INCREASE IN CASH	**1,001,199**	**(157,245)**
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,694,412	1,843,887
GAINS ON EXCHANGE	106,623	18,450
LOSS ON EXCHANGE	(3,868)	(10,680)
CASH AND CASH EQUIVALENTS, END OF YEAR	**2,798,366**	**1,694,412**

Belgrade, 18. March 2019.

President of the Executive Board

Zhu Lianqi

Member of the Executive Board

Slaviša Aleksić

NOTES TO THE FINANCIAL STATEMENTS

FOR 2018

BANK OF CHINA SRBIJA AD BEOGRAD

March 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION ON THE BANK

Bank of China Serbia a.d. Belgrade (hereinafter referred to as: "the Bank") was established on 22.12.2016, when the registration of the economic entity was made within the Company Registry in the Serbian Business Registers Agency.

In accordance with the decision of the National Bank of Serbia dated 20.12.2016 and the Memorandum of Association, the Bank was registered to perform the following activities:

- Deposit operations
- Loan (credit) operations
- Foreign exchange, foreign exchange – currency and exchange operations
- Payment transaction operations
- Issuance of payment cards
- Securities operations
- Issuance of bonds, guarantees, bill of exchange securities and other forms of securities
- Purchase, sale and collection of receivables (factoring, forfaiting, etc.)
- Operations as authorized by the Law
- Provision of other financial services.

The founder and the owner of 100% of the bank is the Bank of China (Hungary), Close Ltd.

The Bank's registered office is located at the address 2a Bulevar Zorana Đinđića St., 11070 Novi Beograd. The bank's registration number is 21251640, and the tax identification number is 109837136.

As at 31.12.2018, the Bank had no subsidiaries or branch offices within its composition.

2 BASIS FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS

2.1 Basis for compilation and disclosure of financial statements

The financial statements of the Bank for the year 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) and the regulations of the National Bank of Serbia governing financial reporting of banks.

The enclosed financial statements have been prepared in the form prescribed by the Decision on the Forms and Contents of Items in the Financial Statement Forms for Banks ("Official Gazette of the Republic of Serbia", No. 71/2014 and 135/2014).

The enclosed financial statements have been prepared in accordance with the concept of historical cost, except for securities traded and securities available for sale, which are valued at market value.

The amounts in the financial statements of the Bank are disclosed in thousands of RSD, unless otherwise specified.

The financial statements have been prepared on the basis of going concern principle that implies that the Bank will continue to operate in the foreseeable future.
In compiling these financial statements, the Bank has applied the Accounting Policies outlined in Note 3.
The Bank's financial statements are reported in thousands of dinars. The Dinar represents the official reporting currency in the Republic of Serbia.

2.2 Modifications and supplements of the IFRS whose entry into force and application is mandatory in the current period

Adopted accounting policies are in accordance with those from the previous financial year, except for the following amended IFRS adopted by the Bank as of 1. January 2018:

- **IFRS 9 Financial Instruments**

  The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

  The bank has not had any significant effects on the basis of implementation of this standard.

- **IFRS 15 Revenue from Contracts with Customers**

  IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**

  The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**

  The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IAS 40: Transfers to Investment Property (Amendments)**

  The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration**

  The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. It is not expected that the requirements of this interpretation will have significant effect on Bank's financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. It is not expected that the requirements of these improvements will have significant effect on Bank's financial statements.

- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

2.3. Standards that have been issued but that have not come into effect yet or have not been previously adopted

- **IFRS 16: Leases**

  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

  IFRS 16 has been issued in January 2016 and is replacing IAS 17 Leasing, IFRIC 4 Determining whether the arrangement includes lease, SIC-15 Operational Leasing-Incentives and SIC-27 Estimating Transactions that Include Legal Form of Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and requires the lessors to account for all the receipts within a financial model similar to the financial lease accounting in accordance with IAS 17. The Standard includes two waivers for leasing - lease of "small assets" value "(eg Personal computers) and short-term leases (ie leases with a lease term of 12 months or less). At the beginning of the lease, the lessee will recognize the obligation to lease the lease (ie the leasing obligation) and the asset that represents the right to use the asset in question during the lease term (ie the right to use the asset). The lessees will be required to separately recognize the cost of interest on the lease obligation and the depreciation charge on the right to use the asset. Leases will also have to re-evaluate the lease obligation upon the occurrence of certain events (eg changes in the lease duration, changes in future lease payments due to changes in the index or the rate used to determine these payments). The lessor will generally acknowledge the amount of re-valuation of the lease obligation as a correction of the right to use the asset.

The leasing provider's accounting in accordance with IFRS 16 is essentially unchanged with respect to accounting under IAS 17. Leaseholders will continue to classify all lease contracts using the same classification principle as under IAS 17 and distinguish between two types of leases: operating and financial leasing.

IFRS 16, effective for annual periods beginning on or after 1 January 2019, requires lessors and lessors to disclose more detailed information than in accordance with IAS 17.

For the details of first implementation effects please refer to a Note 21.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**

  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that this interpretation will have significant effect on Bank's financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **Conceptual Framework in IFRS standards**
  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IFRS 3: Business Combinations (Amendments)**

  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that these amendments will have significant effect on Bank's financial statements.

- The IASB **has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle,** which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. It is not expected that these amendments will have significant effect on Bank's financial statements.

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

3 ACCOUNTING POLICIES

The basic accounting policies applied during the compilation of the financial statements for 2018 are presented below.

3.1 Interest Income and Expenses

Interest income and expenses for all interest bearing financial instruments, other than those classified as instruments held for trading or measured at fair value in the income statement are recognized within the "interest income" and "interest expense" in the income statement using the effective interest rate method.

The effective interest rate method is a method by which the depreciated value of financial assets or financial liabilities is accounted for, as well as the cost of allocation of interest income or expense over a specific period. The effective interest rate is the rate that accurately discounts the estimated future payments or receipts of cash assets during the expected life of the financial instrument or, where appropriate, during a shorter period to the net carrying amount of financial assets or financial liabilities. When calculating the effective interest rate, the Bank estimates cash flows taking into account all contractual terms of a financial instrument (for example, the possibility of early repayment), but does not take into account future credit losses. The calculation includes all fees and amounts paid or received between two contracting parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When a financial asset or a group of similar financial assets is written off as a result of impairment loss, interest income is recognized using the interest rate discounted for the future cash flow to assess the impairment loss.

3.2 Income and Expenses from Fees and Commissions

Income and expenses from fees and commissions, other than those which are an integral part of the effective interest rate of the instrument, are recognized based on the principle of the occurrence of the event when the service is provided. Fees and commissions are primarily compensations for payment services, issued guarantees and other banking services.

3.3 Conversion of foreign means of payment

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates (functional currency). The financial statements are presented in thousands of dinars (RSD), which is the functional and reporting currency of the Bank.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into dinars at the middle exchange rate of the National Bank of Serbia in force at the balance sheet date. Business changes in foreign currency are translated into dinars at the middle exchange rate established on the interbank foreign exchange market, applicable on the day of the business change. Currency gains and losses arising on the adjustment of balance sheet items denominated in foreign currency and in foreign currency transactions are recorded by crediting or debiting the income statement as income and expenses on the basis of currency gains and losses.

Changes in the fair value of monetary securities denominated in foreign currencies that are classified as available for sale are treated as currency gains and losses on the basis of changes in the amortized value of securities and other changes in the book value of securities. Currency gains and losses relating to changes in amortized cost are recognized in the income statement and other changes in carrying amount are recorded within equity.

Currency gains and losses in non-monetary financial assets and liabilities, such as equity securities measured at fair value, the effects of which are reflected in the income statement, are recognized in the income statement as part of the loss or gain on the fair value. Currency gains and losses on non-monetary financial assets, such as equity securities classified as financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI) are included in the appropriate reserves within revalued reserves in equity.

3.4 Current Income Tax

Income tax represents the amount that is calculated and paid in accordance with the provisions of the Law on Corporate Income Tax of the Republic of Serbia. During the year, the Bank paid income tax in the form of monthly advance payments, the amount of which is deter mined based on the tax return for the previous year. The final tax base, to which the prescribed corporate tax rate of 15% is applied, is determined under the Bank's tax balance. The tax base includes income from the income statement adjusted for certain expenditures and income, in accordance with tax regulations.

Tax regulations in the Republic of Serbia do not allow tax losses from the current period to be used as a basis for tax refunds paid during a certain previous. However, current-year losses can be used to reduce the tax base for future accounting periods, but not longer than 5 years.

3.5 Deferred Income Tax

Deferred income tax is calculated for all temporary differences between the tax base of assets and liabilities and their carrying amount. Current tax rates at the balance sheet date are used to calculate the amount of deferred tax. Deferred tax liabilities are recognized for all taxable temporary differences between the tax base of assets and liabilities at the balance sheet date and amounts reported for reporting purposes, which will result in taxable amounts of future periods. Deferred tax assets are recognized for deductible temporary differences and for the effects of the transferred loss and unused tax credits from previous periods to the extent that it is likely that there will be future taxable income at the expense of which deferred tax assets can be utilized.
Current and deferred taxes are recognized as income and expense and are included in the net profit/loss of the period.

3.6 Employee Compensation

a) Employee Benefits

Short-term employee benefits include salaries and social security contributions and are recognized as an expense in the period in which they have been incurred.

The Bank and its employees are legally obliged to make payments in accordance with defined contribution plans to the pension fund of the Republic of Serbia. The Bank is not under the legal or enforceable obligation to pay compensation to its employees if the Fund does not have sufficient funds to pay compensation to all employees for employment during the current and previous periods. Contributions are recorded as the expense of remuneration to employees for the period to which such remunerations relate.

b) Other Employee Benefits

The Bank provides benefits to employees after retirement. The entitlement to these benefits is usually conditional on the employee's years of service up to the age limit for retirement and achievement of minimum length of service. Expected costs for these benefits are accumulated during the period of employment. The defined pension obligation is assessed annually by independent, qualified actuaries, using the method of a projected credit unit. The present value of a defined benefit liability is determined by discounting the expected future cash payments using the interest rates of high-quality bonds expressed in the currency in which the payment liabilities will be effected and which have a maturity that roughly corresponds to the maturity periods of the pension obligation.

3.7 Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include the balances with the maturity of less than three months from the date of acquisition, including cash and cash assets that are not subject to the limits of the Central Bank, treasury bills and other relevant securities, loans and borrowings granted to banks, outstanding receivables from other banks and short-term government securities.

3.8 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial asset

A financial asset is any asset that is:

- cash;
- an equity instrument of another entity;
- a contractual right to receive cash or another financial asset from another entity; or
- a contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments

Financial liability

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity; or
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- a contract that will or may be settled in the entity's own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments

Principles of valuation of financial instruments

From the aspect of classification and measurement, IFRS 9 introduces new criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

As of 1st January 2018 the Bank assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports. The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows. The business model determines whether cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation. Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist exclusively of principal and interest payments on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets valued at amortized cost (AC)
- financial assets valued at fair value through profit and loss account (FVTPL)
- financial assets valued at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):
    - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
    - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
- Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- **Financial derivatives** that include forward and swap transactions.

(i) Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.
As of 1st January 2018, according to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). The Standard eliminates existing categories under IAS 39, "Recognition and Measurement", held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. Equity instruments in subsidiaries that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- The goal of a business model of holding a financial asset is the collection of contracted cash flows and

- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement.

IFRS requires that all financial assets, other than derivatives and equity instruments, be analysed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

As of 1st January 2018, in assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

(ii) Impairment of financial assets

As of 1st January 2018 the IFRS 9 is also fundamentally changing the loan loss impairment methodology. The standard replaced IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank is required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

(iii) De-recognition

As of 1st January 2018 the Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for de-recognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

(iv) Offsetting

As of 1st January 2018 financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank classified financial assets into the following categories: financial assets at fair value carried in the income statement, available-for-sale financial assets, held-to-maturity financial assets and loans and receivables.

Policies applicable until 31st December 2017

Until 1st January 2018 the Bank used the old accounting policies concerning financial instruments which were improved during the year 2018 and implemented. This improvement did not have any material impact on financial statements. Former accounting policies are as follows.

The Bank classified financial assets into the following categories: financial assets at fair value carried in the income

The Bank's management performed classification of financial instruments at initial recognition.

Financial assets were initially valued at fair value increased by the cost of transactions (other than financial assets or financial liabilities at fair value in the income statement) that were directly attributable to the acquisition or issue of a financial asset or a financial liability.

Financial assets and financial liabilities were recorded in the balance sheet of the Bank, from the moment when the Bank assumed the obligation related to the instrument under contractual provisions. Purchase or sale of financial assets in a "regular manner" was recognized by accounting on the settlement date, and/or on the date on which the asset was delivered to the other party.

Financial assets cease to be recognized when the Bank loosed control over the contractual rights on these instruments, which occurs when the rights to use the instruments are realized, expired, abandoned or transferred. A financial liability shall cease to be recognized when the obligation stipulated under the contract was fulfilled, cancelled or expired.

Until 1st January 2018, the Bank did not have any financial assets available-for-sale and financial assets held to maturity. Other financial assets were measured as follows:

a) Financial assets at fair value in the Income Statement

This category comprises two sub categories: financial assets held for trading and those held at fair value in the income statement at the time of recognition.

Financial assets were classified as held for trading if they were acquired for the purpose of sale or repurchase in the short term or if they were part of a portfolio of identified financial instruments that were recorded together and for which there was evidence of the recent actual short-term profit-generation. Derivatives were also classified as securities held for trading unless they were designated as risk protection instruments.

Financial assets were classified as financial assets at fair value through in the income statement when:

- the classification in that category significantly reduced the inconsistencies in valuation that would arise if the financial assets or liabilities were valued on another basis, and the gains and losses were recognized on the basis of valuation;
- certain investments, such as shares of other legal entities were assessed and managed on the basis of fair value in accordance with documented risk management procedures or a documented investment strategy and if management was reported on this basis.

b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market and which the Bank does not intend to sell immediately or in the near future. They arise when the Bank directly provides cash or provides services to the debtor without the intention to trade with the receivables. Loans and receivables consist of investments made to clients and granted to banks. From 1st January 2018 Loans and receivables are classified according to the new policy as a financial assets valued at amortized cost (AC).

Loans and receivables were initially measured at fair value increased by direct transaction costs, and subsequently at amortized cost by using the effective interest rate method. Depreciation was calculated taking into account all issuance costs, as well as discounts or premiums during settlement. Loans and receivables were stated in the net amount reduced by the individual and group value adjustments.

On each reporting date, the Bank assesses whether there was objective evidence of impairment of a financial asset or group of financial assets. Impairment losses were recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and when they affect the estimated future cash flows of a financial asset or group of financial assets that can be reliably estimated.

The write-off of uncollectible receivables was made on the basis of decisions of the court and the Board of Directors of the Bank when there was no real possibility for collection and when all instruments for securing credit collection were activated.

Until 1st January 2018 impairment losses based on loans and receivables, as well as of other financial assets, were recorded in the income statement.

If during the following period, the amount of the impairment loss due to impairment was reduced as a result of an event occurring after recognition of the impairment, the previously recognized impairment loss was adjusted by changes in the allowance account and the amount of the adjustment was recognized in the income statement as income from the reversal of the provisions.

Individual and group impairment losses were formed by impairment of the carrying amount of loans and receivables in which impairment was identified in order to reduce their carrying amount to recoverable amount.

e) Impairment of Loans and Investments

Until 1st January 2018 indicators on the basis of which the Bank determined whether there was objective evidence of impairment of loans and investments include the following:

- delays in the payment of contractual repayment of principal amount or interest,
- financial difficulties of the debtor, including the possibility of bankruptcy or some other form of financial reorganization of the debtor,
- violation of contractual obligations,
- deterioration of the debtor's competitive position,
- decrease in the value of the loan security instrument,

as well as other indicators indicating that there was a measurable decrease in future cash flows, such as changes in national and economic conditions that were directly related to non-performance of contractual obligations.

Assets that were individually assessed for impairment and for which the impairment loss was recognized or continued to be recognized, were not included in the group impairment assessment.

If there was an objective evidence that an impairment loss has arisen, the amount of loss was determined as the difference between the carrying amount of the loan and its recoverable amount, which represents the present value of the estimated future cash flows discounted at the original effective interest rate for that financial asset.

Calculation of the present value of the estimated future cash flows of the financial asset secured by the collateral reflects the cash flows that may arise from the realization of the security instrument. If a loan or an investment had a variable interest rate, the discount rate for estimating any impairment loss was the current interest rate contained in the contract.

Until 1st January 2018 future cash flows for a group of financial assets that are collectively classified and assessed for impairment were determined on the basis of the contracted cash flows of the asset and the Bank's experience with previous, historical losses for assets with similar credit risk characteristics.

Until 1st January 2018 the historical loss data for the purpose of group impairment assessment are adjusted based on currently available data reflecting the effects of the current situation that affected the period in which the experience in the loss was acquired, and to eliminate the effects of the conditions from the previous period that currently do not exist. Until 1st January 2018 the Bank regularly reviewed and revises the methodology and assumptions used to estimate future cash flows in order to reduce the differences between estimated losses and actual losses.

3.9 Intangible Assets

Expenditures directly linked to identified and unique software products controlled by the Bank and likely to generate an economic benefit greater than the expense of more than one year shall be recognized as an intangible asset.

a) Licences

Licenses have a limited life and are stated at purchase value reduced by accumulated value adjustment.

Depreciation is calculated by using a proportional method in order to distribute the license costs during their estimated useful lives.

The acquired software licenses are capitalized in the amount of expenses incurred in acquiring and putting into use and development of the software. Depreciation is calculated using a proportional method in order to distribute expenditures during their estimated useful lives.

Depreciation costs are calculated according to the following rates:

Intangible assets	
Software	33.00%
Other intangible assets and intellectual property (with the exception of logo)	16.60%
Bank's logo	14.50%

Expenditures related to the maintenance of software programs are recognized as the expense of the period in which they have been incurred.

b) Fixed Assets

Fixed assets are stated at purchase value reduced by the value adjustment and impairment. The purchase value includes expenses directly attributable to the purchase of assets.

Subsequent expenditures are included in the cost of the asset or recognized as a separate asset only when it is probable that the Bank will have economic benefits from that asset in the future and if its value can be reliably measured.

Expenditures related to the on-going maintenance of fixed assets are recognized as the expenditure of the period in which they have been incurred.

Depreciation is calculated by using the proportional method in order to distribute the cost to the residual value over their estimated life, as follows:

Fixed assets	
Building structures	2%
Computer equipment	33%
Equipment	14.5%
Vehicles	20%

The residual value of the asset is the estimated amount that the Bank could earn by selling the asset at the present time, reduced by the estimated cost of sales, if the asset is already old and in the condition in which it is expected to be at the end of its useful life. The residual value of the asset is zero if the Bank expects to use the said asset until the end of its physical life. The residual value and useful life of the asset are reviewed and, if necessary, adjusted at the balance sheet date.

Gains and losses arising from the disposal of an asset are determined by the difference between the cash inflow and the carrying amount and are recognized in the income statement within the item of "other income/expenditures".

3.10 Impairment of Non-Financial Assets

Assets that have an unlimited useful life are not subject to depreciation. Checking whether there has been a decrease in their value is performed annually and when events or altered circumstances indicate that the carrying amount may not be recoverable.

For assets subject to depreciation, the verification of whether there has been a decrease in their value is made when events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount for which the carrying amount of the asset is greater than its recoverable amount.

The recoverable amount is the value greater than the fair value of the asset reduced by the cost of sales and the values in use. For the purpose of assessing impairment, assets are grouped at the lowest levels where separate recognizable cash flows (cash-generating units) can be determined.

Non-financial assets that have been impaired are reviewed for each reporting period due to possible reversal of impairment.

3.11 Additional Information for the items shown in the Balance Sheet

a) Deposits of banks and clients and loans

Bank and clients' deposits, as well as other interest bearing financial liabilities are initially recognized at fair value reduced by the transaction costs incurred, except for the financial liabilities that are measured at fair value in the income statement. After initial recognition, interest bearing deposits and loans are stated at amortised cost using the contracted interest rate.

b) Leasing

Application of IAS 17 until 31, December 2018:

Operational risk – Bank as a lessor and lessee

Lease of assets for which all the benefits and risks related to ownership are held with the lessor, and/or are not transferred to the lessee, is recorded as operative leasing.

The Bank mainly concludes business lease agreements. Total payments on the basis of business lease are charged to the income statement on a straight-line basis. When a business lease ends before the expiry of the lease period, any payment required by the lessor as a penalty is recognized as an expense in the period in which the lease was terminated.

Up until 1st January 2019, the Bank applies IFRS 16. For preliminary effects of its implementation, refer to Note 21.

c) Taxes and Contributions for Mandatory Social Insurance

In accordance with the regulations applicable in the Republic of Serbia, the Bank is obliged to pay contributions to various state social security funds. These obligations include employee contributions and are at the expense of the employer in amounts that are calculated using the statutory rates. The Bank has a legal obligation to withhold the calculated contributions from the gross salaries of employees and to transfer the withheld funds for their account in favour of the respective state funds. The Bank is not obliged to pay employees the fees that represent the obligation of the Pension Fund of the Republic of Serbia. Taxes and contributions pertaining to defined salary compensation plans are recorded as the expense of the period to which they relate.

d) Short-term paid leaves

Accumulated paid leaves can be transferred and used in the upcoming periods if not fully utilized in the current period. The expected costs of paid leave are recognized in the amount of cumulated unused rights on the balance sheet date, which are expected to be utilized in the following period. In the case of non-accumulated paid leave, the obligation or cost is not recognized until the moment the leave is used.

e) Provisions, contingent liabilities and assets

Provisions are recognized and made when the Bank has a legal or contractual obligation as a result of past events and when it is likely that an outflow of resources will arise in order to settle the obligation and when the amount of the obligation can be reliably estimated.

The provision is measured at the present value of the expected expenditures to settle the obligation, by using a discount rate that reflects the current market estimate of the time value of money.

Contingent liabilities are not recognized in the financial statements. Contingent assets and liabilities are disclosed in notes to the financial statements.

3.12 Equity

Equity consists of share capital (ordinary shares), issuance premiums, reserves and accumulated loss.

4 INTEREST INCOME AND EXPENSE

In RSD thousand

Interest income	2018	2017
Interest income from deposits – domestic banks	4,231	382
Interest income from deposits – foreign banks	4,274	-
Total	**8,505**	**382**
Interest expense	(2,321)	-
Total	**(2,321)**	-
Total net income	**6,184**	**382**

Interest income on loans to the National Bank of Serbia in the amount of RSD 4,231 thousand (2017: 382 thousand) relates to overnight placements. Interest from foreign banks relates to interest income earned from placements within a group.
Interest expense in the amount of RSD 2,321 thousand occurred due to borrowing of funds from corporate clients on a short term basis.

5 FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand	2018	2017
Income from bank charges		
Fee and commission income from payment transactions	641	-
Fee and commission income from guarantees	795	-
Fee and commission income intra group charges	194,122	-
Other fee income	230,086	269,757
Total income	**425,644**	**269,757**
Expense from bank charges		
Domestic payment operations	(2,556)	(9)
Other fees and commissions	(174)	-
Total expenses:	**(2,730)**	**(9)**
Net fee and commission income	**422,914**	**269,748**

Major income was generated from arrangement fees from loans to the clients approved by members of BOC group, where Bank of China Srbija a.d. acted as an arranger of a deal. This income, together with intra group charges amounted to RSD 424,208 thousand (2017: RSD 269,757).

6 NET FOREIGN EXCHANGE GAINS

In RSD thousand	2018	2017
Foreign exchange gains - foreign currency		
realized	91,546	18,450
unrealized	15,076	0
	106,622	**18,450**
Foreign exchange losses - foreign currency	-	
realized	(3,869)	(10,680)
unrealized	0	(4,057)
	(3,869)	**(14,737)**
Net income from foreign exchange gains and losses - foreign currency		
net income from realized foreign currency	87,677	7,770
net gain / (loss) from unrealized foreign currency	15,076	(4,057)
	102,753	**3,713**
For the year ended 31 December	**102,753**	**3,713**

7 SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

In RSD thousand	2018	2017
Cost of net salaries	(150,895)	(89,464)
Allowance costs	(1,753)	(7,266)
Taxes	(30,862)	(12,921)
Contributions	(19,134)	(18,312)
Other personal expenses	(22,952)	(25,390)
Total	**(225,596)**	**(153,352)**

Other personal expenses in the amount of RSD 22,952 thousand (2017: RSD 25,390) mainly relate to the provision for bonus for 2018 and the expenses for business trips. The amount of salary expenses rose because the average number of employees increased to 24 (2017: no. of employees was 14).

8 DEPRECIATION/AMORTISATION EXPENSE

In RSD thousand	2018	2017
Depreciation of fixed assets	(12,484)	(1,064)
Amortization of intangible assets	(26,311)	(21,524)
Total	**(38,795)**	**(22,588)**

9 OTHER EXPENSES

In RSD thousand	2018	2017
Office materials, small inventory costs	(802)	(1,584)
Rental costs	(3,451)	(2,744)
Fuel expenses	(650)	(456)
Advertising and marketing costs	(14,159)	(7,345)
Other labor services fee	(4,405)	(5,791)
Security device expense	(6,697)	(1,159)
Mobile and fixed phone bills	(3,063)	(1,659)
Rent for office building – legal entity landlord	(36,819)	(38,620)
Other real estate rent – individual landlord	(22,083)	(12,707)
Property management fee	(3,655)	(3,049)
Vehicle rent	(6,818)	(5,436)
Network special line fee	(2,190)	(5,062)
Transfer expenditure to overseas branches – BOC core software	(1,078)	(906)
Business travel expenses	(15,132)	(10,324)
Hospitality and marketing meeting expense	(9,123)	(7,753)
Other information consulting	(7,031)	(4,543)
Other operating expenses	(1,785)	(2,311)
Membership fees	(1,063)	(1,571)
Deposit insurance premiums at the Deposit Insurance Agency	(1,932)	(3,720)
Un-operating expenses	(916)	(1,424)
Taxes, fees and charges to the regulatory authorities	(1,601)	(1,541)
Tax and contributions on salary (employer burden)	(19,675)	-
Other operating expenses	(1)	(60)
Total	**(164,129)**	**(119,765)**

Rental costs in the amount of RSD 36,819 thousand (2017: 38,620 thousand) relate to the office premises in the Boulevard Zoran Đinđić 2A in which the Bank's central office is situated.

10 INCOME TAX

In RSD thousand	2018	2017
Current tax	(21,350)	(2,691)
Deferred tax income	5,648	-
Deferred tax expense	(3,373)	-
Total	**(19,075)**	**(2,691)**

Income tax expense differs from the theoretical amount that would arise using the nominal tax rate applicable to profit before tax. The ratio of the tax expense / income to the accounting expense / income is presented below:

In RSD thousand	2018	2017
Gain / (Loss) before tax	103,266	(21,862)
Tax rate	15%	15%
Calculated income tax	15,490	(3,279)
Tax effect of non-deductible expenses	7,277	5,970
Tax effect of final tax billing	(1,417)	-
Tax expense for the period	**21,350**	**2,691**

10.1 Calculation of deferred tax income / expense

In RSD thousand	2018	2017
Tax effect of temporary differences		
Tax effect of tax assets recognized in accrued severance pay from the current year	5,648	-
Tax effect of temporary differences concerning PPE and intangible assets	(3,373)	-
Deferred tax income /(expense)	**2,275**	**0**
Net deferred tax income	**2,275**	**0**

In 2018 the Bank had effect of temporary tax differences from severance pay and from differences concerning PPE and intangible assets. The total effect amounted to RSD 2,275 thousand.

11 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

In RSD thousand	2018	2017
Gain attributable to equity holders of the Company	84,191	(24,553)
Weighted average number of ordinary shares in issue	100	100
Basic earnings per share (expressed in RSD per share)	842	(246)

12 CASH AND DEPOSITS HELD WITH THE CENTRAL BANK

In RSD thousand

	2018	2017
Current account at National Bank of Serbia	2,798,366	1,694,412
Regulatory reserve in RSD at NBS	21,807	-
Total cash and deposits held with NBS	2,820,173	1,694,412

13 LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANISATIONS

Structure by product

In RSD thousand	Moody's	2018	2017
Foreign currency			
FX current accounts with foreign banks			
Bank of China Limited, Hungary Branch	A1	11,530,201	19,817
Bank of China Frankfurt Branch	A1	2,488,722	-
Loans and deposits to other banks			
Bank of China Macau Branch	A1	10,338,930	-
Bank of China Frankfurt Branch	A1	93,050	-
Special purpose deposits – Komercijalna Bank	unrated	2,248	2,250
Receivables for interest income on loans and deposits		4,277	-
Total		24,457,428	22,067

Bank of China Serbia a.d. foreign currency current accounts relates to the nostro account held with foreign banks in the amount of RSD 14,018,923 thousand (2017: RSD 19,817 thousand).
Special purpose deposit at Komercijalna bank relates to the cash deposit placed for the purpose of collateral for the acquired business card.
Loans and deposits to other banks relate to short term deposits to the members of the BOC group banks.

14 INTANGIBLE ASSETS

Movements within intangible assets are presented below. Intangible assets are relative to the software and the licenses used by the Bank in its business operations.

In RSD thousand	License and software	Total
Cost		
As at 01.01.2017.	35,030	35,030
Additions	0	0
Disposals	0	0
Transferred to intangible assets	0	0
As at 31.12.2017.	**35,030**	**35,030**
Additions	2,911	2,911
Disposals	0	0
Transferred to intangible assets	0	0
As at 31.12.2018.	**37,941**	**37,941**
Impairment provisions		
As at 01.01.2017.	(1,064)	(1,064)
Depreciation	0	0
Disposals	0	0
As at 31.12.2017.	**(1,064)**	**(1,064)**
Depreciation	(12,484)	(12,484)
Disposals	0	0
As at 31.12.2018.	**(13,548)**	**(13,548)**
Net book value as at		
31 December 2018	24,393	24,393
31 December 2017	33,966	33,966

15 PROPERTY, PLANT AND EQUIPMENT

In RSD thousand	Equipment and other assets	Fixed assets in preparation	Investments in other fixed assets	Total
Cost				
As at 01.01.2017.	-	32,389	-	32,389
Additions	57,632	-	30,094	87,726
Disposals	-	-	-	-
Transfer from PPE under construction to PPE	3,686	(32,389)	28,703	-
Transfer from PPE to under construction	-	-	-	-
Other	-	-	-	-
As at 31.12.2017.	**61,318**	**-**	**58,797**	**120,115**
Additions	4,171	-	-	4,171
Disposals	-	-	-	-
Transfer from PPE under construction to PPE	-	-	-	-
Transfer from PPE to under construction	-	-	-	-
Other	-	-	(174)	(174)
As at 31.12.2018.	**65,489**	**-**	**58,623**	**124,112**
Impairment provisions				
As at 01.01.2017.	-	-	-	-
Depreciation	(10,426)	-	(11,098)	(21,524)
Disposals	-	-	-	-
Other	-	-	-	-
As at 31.12.2017.	**(10,426)**	**-**	**(11,098)**	**(21,524)**
Depreciation	(14,937)	-	(11,373)	(26,310)
Disposals	-	-	-	-
Other	-	-	-	-
As at 31.12.2018.	**(25,363)**	**-**	**(22,471)**	**(47,834)**
Net book value as at				
31 December 2018	**40,126**	**-**	**36,152**	**76,278**
31 December 2017	**50,892**	**-**	**47,699**	**98,591**

The useful life of leasehold improvements is in line with the leasehold period. Where a Lease Agreement is concluded for an indefinite period of time, the leasehold improvement is written of over a 5 year period. Where a Lease Agreement is concluded for a period of less than five years, bearing in mind that five years is needed to develop a business activity, the investment is written off at 20% rate.

The Bank continued process of purchasing equipment in 2018. Most of the fixed assets are not older than a year and therefore there were no events that would indicate the impairment triggers for this part of assets. The assessment of the management is therefore to:

- The residual value of the plant and equipment as well as of equipment and other assets, is equal to the carrying net book value recorded as at 31 December 2018
- The residual value of intangible assets, software and licenses, is equal to the carrying net book value recorded as at 31 December 2018

16 OTHER ASSETS

In RSD thousand	2018	2017
Other receivables for deposits to lessors	10,962	2,116
Other receivables from suppliers	2,204	-
Accruals - rental fee	1.321	370
Suspense accounts	-	-
Total	**14,487**	**2,486**

Receivables from lessors relate to receivables from corporate clients and individuals in the amount of RSD 10,962 thousand (2017: RSD 2,116 thousand).

16.1 DEFERRED TAX ASSETS

At the end of the year the deferred tax assets amount to RSD 5,648 thousand (2017: 0 RSD). This temporary tax difference occures due to calculated bonus, since this expense is tax deductable only in year of payment.

17 DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

As of December 31, 2018, the Bank had liabilities for deposit in the total amount of RSD 25,426,871 thousand (2017: RSD 171 thousand). The sectoral structure of these deposits relates in most to the corporate sector.

Structure by product

In RSD thousand	2018	2017
Dinars		
Demand deposits	1,007,529	171
Time deposits	0	0
Total in dinars	**1,007,529**	**171**
Foreign currency		
Demand deposits	24,322,842	0
Time deposits	93,050	0
Other interest payables on loans, deposits and other financial liabilities	3,450	
Total in foreign currency	**24,419,342**	**0**
Total	**25,426,871**	**171**

Structure by sector

In RSD thousand	2018	2017
Corporate	25,333,821	171
Public enterprises	93,050	0
Total	25,426,871	171

17.1 PROVISIONS

At the end of the year provisions amounted to RSD 65 thousand (2017: 0 RSD). This rise in provisions is due to issued guarantees to a member of the BOC Group – Bank of China Beijing with Moody's rating A1. This rise in provisions directly influenced impairment losses from financial assets and credit risk off-balance sheet items.

18 OTHER LIABILITIES

In RSD thousand	2018	2017
Liabilities towards employees	21,839	23,513
Payables for other tax and contributions	4,923	2,691
Accrued other expenditures in dinars	15,318	5,813
Accrued other expenditures in foreign currency	898	-
Total	42,978	32,017

Other liabilities to employees consist of the reserved amount of the bonus for 2018 in the gross amount of RSD 21,839 thousand (2017: RSD 23,513 thousand).

Accrued other expenditures in RSD in the amount of RSD 15,318 thousand (2017: RSD 5,813 thousand) relate to accrued unencumbered expenditures from December 2018.

18.1 DEFERRED TAX LIABILITIES

At the end of the year the deferred tax liabilities amount to RSD 3,373 thousand (2017: 0 RSD). This temporary tax difference occures due to difference in calculation methods for depreciation of fixed assets between the accounting policy and regulatory perscribed amounts.

19 CAPITAL

The bank's share capital consists of 100 ordinary shares with nominal value of RSD 18,438,870 per share (2017: RSD 18,438,870). The capital was registered on the basis of the incorporation act and registered with the Central Securities Depository and clearing house as of 22 December, 2016.

The first payment of the capital was made on 8 December, 2016 in the amount of RSD 1,843,887 thousand (EUR 15,000,000). Pursuant to the Decision of the Shareholders Assembly of 4 September, 2017, the nominal value of shares was reduced. Capital decrease was due to the adjustment of the book value of the capital because the Decision on the capital entry from 14 October, 2016, and the capital was paid on 8 December, 2016.

The owner of 100% of the Bank's shares as of 31 December, 2018 is the Bank of China (Hungary), Close Ltd.

20 OFF-BALANCE SHEET ITEMS

As of 31 December 2018, the Bank first time started to issue performance guarantees and other off balance sheet items. The guarantees are secured by counter-guarantee from the members of the BOC group. As for other off-balance sheet items, the Bank received loro letters of credit for corporate clients, with no credit risk included.

Structure by product

In RSD thousand	**2018**	**2017**
Dinars		
Issued guarantees and other sureties	151,200	-
Other off-balance sheet assets	2,919	-
Total	**154,119**	**-**

20.1 LITIGATIONS

As of 31 December, 2018, no court proceedings have been held against the Bank.

21 IFRS 16 LEASING

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

IFRS 16 has been issued in January 2016 and is replacing IAS 17 Leasing, IFRIC 4 Determining whether the arrangement includes lease, SIC-15 Operational Leasing-Incentives and SIC-27 Estimating Transactions that Include Legal Form of Lease. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases and requires the lessors to account for all the receipts within a financial model similar to the financial lease accounting in accordance with IAS 17. The Standard includes two waivers for leasing - lease of "small assets" value "(eg Personal computers) and short-term leases (ie leases with a lease term of 12 months or less). At the beginning of the lease, the lessee will recognize the obligation to lease the lease (ie the leasing obligation) and the asset that represents the right to use the asset in question during the lease term (ie the right to use the asset). The lessees will be required to separately recognize the cost of interest on the lease obligation and the depreciation charge on the right to use the asset. Leases will also have to re-evaluate the lease obligation upon the occurrence of certain events (eg changes in the lease duration, changes in future lease payments due to changes in the index or the rate used to determine these payments). The lessor will generally acknowledge the amount of re-valuation of the lease obligation as a correction of the right to use the asset.

The leasing provider's accounting in accordance with IFRS 16 is essentially unchanged with respect to accounting under IAS 17. Leaseholders will continue to classify all lease contracts using the same classification principle as under IAS 17 and distinguish between two types of leases: operating and financial leasing.

IFRS 16, effective for annual periods beginning on or after 1 January 2019, requires lessors and lessors to disclose more detailed information than in accordance with IAS 17.

Transfer to IFRS 16

The Bank plans to make a transition to IFRS 16 in accordance with a modified retrospective approach.

The Bank has chosen to use the standard exemption clauses on lease contracts for which:

- the asset in question is an intellectual property license;.
- the asset in question value, facility or equipment being leased (when new) is less than 5,000.00 EUR; and
- on lease contracts for which the lease ends within 12 months from the date of initial application

The following categories of leases have been identified, and as a result of the change in IFRS 16 of January 1, 2019, contracts previously recognized as operating leases are now qualifying as collateral as defined by the new standard: real estate and vehicles.

During the first application of IFRS 16, the right to use the lease is generally taken into account in the amount of the lease liability, using an average incremental rate of 2.61% borrowing.

The first application resulted in the recording of liabilities and use of rights based on leasing in the amount of about RSD 270,364 thousand in the balance sheet on 1. January 2019..

22 RISK MANAGEMENT POLICIES

22.1 Competences

The Board of Directors is responsible for establishing the system of internal controls and monitoring their effectiveness. The Board of Directors adopts Strategies and Risk Management Policies, as well as the Bank's Capital Management Strategy, proposed by the Executive Board.

The Executive Board implements the mentioned strategies and policies by adopting procedures for risk management and ensuring their implementation. The Executive Board analyses the risk management system and at least on quarterly reports the Board of Directors on the level of risk exposure and management.

It is also the responsibility of the Board of Directors to determine the amounts to which the Bank's Executive Board may decide on the investments and borrowings of the Bank, as well as deciding on the investments and borrowings of the Bank through such amounts, and gives prior consent for the Bank's exposure to each individual person or group of related parties exceeding 10 % of the Bank's capital, and/or to increase this exposure to more than 20% of the Bank's equity.

The Board of Directors ensures the implementation of the internal capital adequacy assessment process of the Bank.

22.2 Internal Regulations

The highest level document for risk management in the Bank is the General Risk Management Policy. With this document, the following risks are identified as the major risks faced by the Bank:

- **Credit Risk**
  Risk arising from the inability of the Borrower to settle its contractual obligations for the received loan.

- **Market Risk**
  Risk of losses due to changes in the market (interest rates, exchange rates, equity price and price of goods).

- **Operating Risk**
  Risk of losses incurred due to inadequate or unsuccessful internal processes, employees and IT systems, or due to external events. It includes legal but not strategic and reputational risk.

- **Country Risk**
  The risk arising from economic, social and political changes and events in a particular country or region resulting in the inability or refusal of a borrower or debtor in that country or region to repay the loan to the Bank.

- **Liquidity Risk**
  The risk that a solvent commercial bank fails to acquire the appropriate assets or fails to do so at an acceptable price in order to be able to respond to the risks of increasing assets or repaying mature debts.

- **Strategic Risk**
  The risk of losses due to an inadequate business strategy of the Bank or changes in the external business environment.

- **Reputational Risk**
  Risk of negative stakeholder perceptions of the Group caused by the Group's operations, management and other behaviour or external events.

The basic principles of the risk management in the Bank are:

1) Compliance with regulatory requirements - strict observance of applicable legal regulations
2) Achieving balance between risk and yield - balance is achieved by active control. Each job category must achieve at least as much benefit as it suits the risk borne and optimize the allocation of capital.
3) Independence and professionalism - the risk management units and employees in them must be relatively independent and manage the risks arising from business development with relatively independent attitudes and professional expertise on the scientific basis.
4) Clarification of rights and obligations - responsibility is allocated by a strict internal control mechanism, a specific division of responsibilities and clearly defined rights and obligations.
5) Flexibility towards the future and proactive attitude - the Risk Management Department and the Business Development Department cooperate, study and manage risk in an advanced way, by actively identifying, selecting and taking risks, improving management and control measures and ensuring that risks are kept in within the set of risk appetites.
6) Being familiar with clients and jobs - by knowing especially new products and new clients, it ensures measurable margin of risk and the acceptability of the risks.
7) Consistency and coherence - The Bank applies a coherent risk management strategy, carries out a consolidated risk management of all members of the Group in order to ensure consistency between the objectives of risk management and business development.
8) Differentiation and ability to control - The Bank manages the risks in a differentiated and controlled manner, in accordance with the market environment and its own risk management capability in order to ensure more flexible and convenient risk management.

Risk transfer capacity refers to the level of risk that the Bank tolerates in the process of maximizing interest on behalf of the founder, in accordance with the requirements and expectations of other stakeholders (regulator, depositors ...). The Bank seeks to maintain moderate capacity to take risk and achieve a balance between risk and yield, in line with the principle of "rationality, stability and caution"
Risk assumption indicators are:
- Return on equity (ROE)
- Capital adequacy ratio (CAR)
- Risk-adjusted return on capital (RAROC)

The key risk indicators for previously listed risks that the Bank has identified as key ones are:

Type of Risk	Key Risk Indicators
1. Credit Risk	
1.1. Credit risk	Coefficient of suspicious loans, provisions coefficient, loan price, structure and changes in credit rating of clients
1.2. Loan concentration risk	Risk concentration with one group of clients, risk concentration with one client, risk concentration for 10 biggest clients
2. Market risk	
2.1. Market risk	Risk value (VaR) of the market risk in the trading book, stress-tests, allocation of capital for market risk (standardized approach)
2.2. Interest risk in the bank books	Economic value volatility (EV), net interest income (NII)
3. Operating risk	Employee fluctuation coefficient, number of significant system failures, applicative system availability
4. Country risk	Country credit rating, country limitations
5. Strategic risk	The Bank should strengthen monitoring and management of strategic projects during the implementation process to ensure the completion of projects within the planned deadlines

6. **Liquidity risk**	Liquidity ratio, LCR
7. **Reputational risk**	Avoid continuous negative reports in the media and numerous negative observations of the public; reduce the likelihood that the regulatory authorities make criticisms to the Bank, or ask for a correction of the default and the impact that arises from there.

22.3 Credit risk

Credit risk is the risk that certain claims of the Bank will not be fully paid under the conditions under which they were initially approved, or the inability and / or unwillingness of the debtor to settle its obligations in accordance with the terms of the contract. The debtor shall be any legal or natural person having on balance and / or off-balance liability towards the Bank. All related persons in terms of Article 2 of the Banking Law are considered as one debtor.

The process of credit risk management is based on general business principles:

1) consistent approach and uniform standards in the process of decision making on the Bank's placements that are defined by internal documents;
2) The bank determines the total exposure to one debtor, where under one client it is also considerd a group of related parties in accordance with the provisions of the Banking Law;
3) The Bank monitors and manages the level of total exposure of the borrower in accordance with the adopted credit policy of the Bank;
4) All individual decisions on placement, as well as all material changes to the concluded contracts, are authorized by the competent authority;
5) When deciding on exposures, the Bank is obliged to respect the countrparty limits and to try to avoid excessive concentration of exposure, taking into account the requirements regarding the structure of the Bank's financing, as well as the requirements of cautios lending.

The process of credit risk management refers to activities such as identifying and assessing risks, monitoring and reporting, as well as risk control of the Bank. The process of credit risk taking involves the following activities carried out by the Bank:

- receipt and recording of the risk taking transaction requirement;
- client rating and preparation of credit application;
- duediligence and collateral evaluation;
- setting limits and approval;
- conclusion of the contract and payment;
- monitoring of exposure, classification of assets, provisions;
- collection of receivables, closing, write-off of receivables.

The Bank manages the credit risk by establishing adequate processes for determining the borrower's creditworthiness when approving placement, regular monitoring of execution of contractual obligations, setting limits and defining the level of risk that the Bank is willing to accept.

The credit rating is determined when assessing the financial position and future solvency of the client, partner or guarantor. The result of the credit rating is the basis for the acceptance of clients or the termination of cooperation with the same, and it is one of the basic factors that are taken into account when deciding on the quality of the loan, approving, determining the loan price, classifying the risk of credit assets and managing the autorization in credit business process. Credit rating of clients is determined according to a single standard, with periodic assessments and dynamic adjustment. In the process of determining the credit rating, the Bank estimates the data that can be quantified, which are obtained from the client's financial statements; objective aspects, as well as data that can not be quantified and considered as subjective, as well as other circumstances and factors determined by the internal documents of the bank.

Upon approval, placements are regularly monitored and evaluated, as well as the creditworthiness of the borrower throughout the entire repayment period. The monitoring process is carried out on a quarterly basis, and in case of need and more often by the relevant departments of the Bank. In a timely manner, the Bank takes measures to reduce the credit risk in case of deterioration of the financial condition or creditworthiness of the borrower.

Potential liablities related credit risk

The Bank issues guarantees and letters of credit to its clients, on the basis of which the Bank has a potential obligation to make payments in favor of third parties. In this way, the Bank is exposed to risks related to credit risk, which can be overcome by the same control processes and procedures.

Concentration risk

Concentration risk is a risk which arises, directly or indirectly, from the Bank's exposure to the same or similar source of risk or the same or similar type of risk.

Concentration risk refers to large exposures, small exposures to the same or similar risk factors, such as economic sectors, geographic areas, types of products, etc. and credit hedging instruments, including maturity and currency mismatch between large exposures and instruments of credit hedging against these exposures. To keep and sustain credit portfolio, as well as minimize concentration risk, as a security measures Bank define level of exposure , set up credit limits, and perform regular monitoring of determined regulatory and internal limits, which are defined in Concentration risk policy.

In line with NBS Decision oon risk management, large exposure toward singe client or group of connected clients, is exposure which represent minimum 10% of capital.

Maximum credit exposure

Maximum credit exposure of the Bank is expressed through the gross value of financial assets in the balance sheet. For guarantees and loan extension obligations, the maximum amount of exposure is the amount of the obligation.

	31.12.2018.						
Classes of exposures	**Maximum exposure to credit risk**	**Out of which: Stage 1**	**Balance without of**	**Impairment allowance**	**Out of which: Impairment allowance Stage 1**	**Impairment allowance without Stage**	**Net amount**
Cash and balances with Central Bank	2,820,173	-	2,820,173	-	-	-	2,820,173
Loans and receivables from banks and other financial institutions	24,457,428	10,438,507	14,018,921	-	-	-	24,457,428
Loans and advances to customers	13,165	-	13,165	-	-	-	13,165
Balance as of 31st December	**27,290,766**	**10,438,507**	**16,852,259**	**-**	**-**	**-**	**27,290,766**
Payment and performance guarantees	151,200	151,200	-	(64)	(64)	-	151,136
Balance as of 31st December	**151,200**	**151,200**	**-**	**(64)**	**(64)**	**-**	**151,136**
TOTAL	**27,441,966**	**10,589,707**	**16,852,259**	**(64)**	**(64)**	**-**	**27,441,902**

31.12.2017.			
Classes of exposures	Maximum exposure to credit risk	Impairment allowance	Net amount
Cash and balances with Central Bank	1,694,412	-	1,694,412
Loans and receivables from banks and other financial institutions	22,068	-	22,068
TOTAL	**1,716,480**	**-**	**1,716,480**

Collateral and other credit enhancements

The Bank shall not take any risk (commitment) without legal securities. The Bank shall pursue to maximize the security base, if possible combine the different type of collaterals to optimize the collateral structure, keeping in primer consideration that the collateral structure shall fit to the credit transaction's main features, such as credit rating of the customer, type of risk-taking and term of the commitment

The Bank shall pursue that the collaterals shall cover the principal, interest due and additional expenses. Collateral value is estimated during the credit approval process, and monitored through all repayment period. The basic approach is that the repayment of the credit should be covered from the primer source of cash of the customer, the project or the asset. The collaterals serve only as additional security. For the purpose of clear definition of acceptable collaterals and their treatment, Bank adopt Collateral valuation rule.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The following table shows credit risk exposure analysis by individually and collectivly impaired exposures as of 31 December, 2018:

31.12.2018							
		Collective				Individual	Without Stage
Classes of exposures	**Total**	**Level 1**	**Level 2**	**Level 3**	**Subtotal collective**	**Stage 3**	**Balance without stage**
Cash and balances with Central Bank	2,820,173	-	-	-	-	-	2,820,173
Securities	-	-	-	-	-	-	-
Loans and receivables from banks and other financial institutions	24,457,428	10,438,507	-	-	10,438,507	-	14,018,921
Loans and advances to customers	13,165	-	-	-	-	-	13,165
-out of which: Public enterprises	696	-	-	-	-	-	696
- out of which: Corporate	10,671	-	-	-	-	-	10,671
- out of which: Retail	1,798	-	-	-	-	-	1,798
- out of which: Other customers	-	-	-	-	-	-	-
Other assets	107,641	-	-	-	-	-	107,641
ASSETS	**27,398,407**	**10,438,507**	**-**	**-**	**10,438,507**	**-**	**16,959,900**
Payment and performance guarantees	151,200	151,200	-	-	151,200	-	-
OFF-BALANCE SHEET ITEMS	**151,200**	**151,200**	**-**	**-**	**151,200**	**-**	**-**
Balance as of 31st December	**27,549,607**	**10,589,707**	**-**	**-**	**10,589,707**	**-**	**16,959,900**

Impairment assessment

Management Measure for Impairment of financial assets follows below principles:
1) Compliance: In accordance with the accounting standards and regulations, the bank should make sure the provision for impairment of financial assets can meet external compliance requirements.
2) Be objective and prudential: The bank should fully consider internal and external factors affecting the value of financial assets in order to avoid overestimation or underestimation, and accurately reflect the risk of financial assets.
3) Be practical: Based on the bank's business and management demand, the bank should determine alternative standards and measurement principles to make sure the impairment provision work is economically efficient and operable.
4) Strengthen internal control: By strengthening internal control, the bank should clarify work scope and obligation for all involved parties, and to ensure the objectivity and fairness of the provision for impairment.

According to the new standards, the purpose of the impairment provision is to measure the expected credit loss (hereinafter referred to as "ECL"), for each stage of financial assets based on subsequent changes in lifetime. All financial instruments should be categorized into different stages according to the change of its credit risk.
A complete and multi-perspective set of stage categorization criteria are formulated based on "quantitative as the main, qualitative supplements" principle. The main criteria is:
1) The internal credit rating of the borrower and the change of it;
2) Overdue days of the facility;
3) the risk classification of the financial assets and the change of it;
4) the financial conditions and managerial status of the debtor, etc. (i.e., debtors in black list or white list).

In accordance with above, during 2018, Bank categorize its exposure based on financial institution counterguarntees with first class rating, into Stage 1.

The following table shows the change in the impairment stages by gross exposure in 2018:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross balance as of 1st January 2018	-	-	-	-	-
New assets originated or purchased	10,636,486	-	-	-	10,636,486
Payments and assets derecognised (excluding write offs)	46,779	-	-	-	46,779
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes (Change of exposure, fx differences etc,)	-	-	-	-	-
Gross balance as of 31st December 2018	**10,589,707**	-	-	-	**10,589,707**

The following table shows the change in the impairment stages by ECL allowance in 2018:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2018	-	-	-	-	-
New assets originated or purchased	(64)	-	-	-	(64)
Payments and assets derecognised (excluding write offs)	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes (Change of exposure, fx differences etc,)	-	-	-	-	-
ECL allowance as of 1st January 2018	**(64)**	**-**	**-**	**-**	**(64)**

The following table shows the value and type of collaterals and the providers of guarantees by the lending sector and categories of receivables as of 31 December 2018:

Value of the collaterals				
		Guaranties issued by		
Classes of exposures	**Deposits**	**Sovereign**	**Banks**	**Other**
Loans and advances to customers	-	-	-	-
-out of which: Public enterprises	-	-	-	-
- out of which: Corporate	-	-	-	-
- out of which: Retail	-	-	-	-
- out of which: Other customers	-	-	-	-
Other assets	-	-	-	-
ASSETS	-	-	-	-
Payment and performance guarantees	-	-	151.200	-
Exposed letters of credit	-	-	-	-
Undrawn commitments	-	-	-	-
Other	-	-	151.200	-
OFF-BALANCE SHEET ITEMS	-	-	151.200	-

During 2017 the Bank did not have any exposures covered by collaterals.

22.4 Exposure to financial risks

Foreign exchange risk is the risk of potential adverse effects on the Bank's financial result and capital due to changes in foreign exchange rates.

As of December 31, 2018, the Bank's net foreign exchange position is as follows:

in RSD thousand	EUR	USD	Other	RSD	Total
Cash and balances with Central Bank	21,807	-	-	2,798,366	2,820,173
Loans and receivables from banks and other financial institutions	2,453,211	21,966,458	35,511	2,248	24,457,428
Loans and advances to customers	-	-	-	-	-
Intangible assets	-	-	-	24,393	24,393
Property, plant and equipment	-	-	-	76,278	76,278
Deferred tax assets	-	-	-	5,648	5,648
Other assets	9,164			5,323	14,487
TOTAL ASSETS	**2,484,182**	**21,966,458**	**35,511**	**2,912,256**	**27,398,407**
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	2,479,689	21,811,093	35,510	1,007,529	25,333,821
Deposits and other liabilities due to customers	-	93,050	898	-	93,948
Provisions	-	-	-	64	64
Current tax liabilities	-	-	-	21,596	21,596
Other liabilities	-	-	-	42,080	42,080
Deferred tax liabilities	-	-	-	3,373	3,373
Capital	-	-	-	1,903,525	1,903,525
TOTAL LIABILITIES	**2,479,689**	**21,904,143**	**36,408**	**2,978,167**	**27,398,407**
Off-balance financial instrument	-	-	-	151,200	151,200
Net foreign position as of 31.12.2018.	**4,493**	**62,315**	**(897)**	**85,289**	**151,200**

As of 31st December 2018 the foreign exchange risk amounts to 3.72 % (regulatory prescribed maximum limit is 20% of the regulatory capital)

22.5 Equity Management

The objectives of the Bank in terms of equity management, which is a wider concept than the amount of equity shown in the balance sheet, are:

- Ensuring compliance with the requirements of the National Bank of Serbia;
- Ensuring the possibility of long-term business continuity while providing returns to shareholders and benefiting other stakeholders; and
- Providing a strong equity base in support of the further development of the Bank's operations.

The Bank manages the equity structure and performs adjustments in accordance with changes in economic conditions and risk characteristic of the Bank's activities. The Bank's management regularly monitors the indicators of the Bank's adequacy and other performance indicators prescribed by the National Bank of Serbia and submits quarterly reports to the National Bank of Serbia on the realized values of the indicators.

The Law on Banks and the relevant decisions of the National Bank of Serbia stipulate that banks must maintain a minimum amount of equity of RSD 10 million in dinar equivalent according to the official middle exchange rate, an indicator of capital adequacy of at least 8%, the Tier 1 capital ratio at least 6%, the Common Equity Tier 1 capital ratio at least 4.5% and to adjust the volume and structure of their operations with the indicators of business prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia", No. 45/2011, 94/2011, 119/2012 and 123/2012, 23/2013, 43/2013, 92/2013, 33/2017, 61/2017, 103/2016 and 119/2017) and the Decision on Capital Adequacy ("Official Gazette of the Republic of Serbia", No. 106/2016).

The above-mentioned Decision of the National Bank of Serbia on the adequacy of the bank's capital determines the method of calculating the capital of the Bank and the indicators of the adequacy of that capital. The Bank's total capital consists of share equity and supplementary capital and defined deductible items, while risky balance and off-balance sheet assets are determined in accordance with the prescribed risk weight for all types of assets.

The Bank's capital adequacy ratio is equal to the ratio of the bank's capital to the pool of credit risk weighted assets, the foreign exchange risk capital requirement multiplied by the reciprocal value of the capital adequacy ratio (prescribed 8%) and capital requirements in relation to other market risks multiplied by the reciprocal value indicators of capital adequacy.

The table below shows the state of equity and total risk assets as at December 31, 2018:

In thousands RSD	2018	2017
Share equity	1,843,887	1,843,887
Share premium	-	-
Loss	(24,553)	(21,862)
Other intangible assets before related deduction of deferred tax liabilities	(24,393)	(33,966)
Tier 1 Capital	**1,796,358**	**1,788,059**
Tier 2 Capital	-	-
Regulatory capital (1)	**1,796,358**	**1,788,059**
Total risk weighted assets (2):	**6,032,527**	**22,067**
Capital adequacy (1/2 x 100)	**29.78%**	**8102.86%**

23 BANK PERFORMANCE INDICATORS

The Bank is obliged to harmonize the scope and structure of its operations and risky investments with the indicators of operations prescribed by the Law on Banks and the relevant decisions of the National Bank of Serbia adopted on the basis of the relevant Law.

As at 31 December 2018, the Bank has complied with all indicators of operations with the prescribed values. The realized indicators of the Bank's operations as at 31 December 2018 were as follows:

Business indicators	Prescribed	Realized
1. Capital	EUR 10 million	RSD 1,843,887 thousand
2. Capital adequacy ratio	8%	29.78%
3. The Tier 1 capital ratio	6%	29.78%
4. The Common Equity Tier 1 capital ratio	4.5%	29.78%
5. Bank investments	Max 60%	5.60%
6. Exposure to one person or a group of related parties	25%	0%
7 Exposure to persons affiliated with the Bank	25%	0%
8. Sum of big exposures of the Bank	400%	0%
9. Foreign exchange risk indicator	20%	3.72%

24 TRANSACTIONS WITH RELATED PARTIES

In its regular business operations, the Bank realizes business transactions with its shareholders and other related parties. Adjustments of transfer prices with market prices in the items of the tax balance sheet were made for transactions with related parties.

The balances of receivables and liabilities as at 31 December 2018 and 2017 resulting from the transactions with shareholders and other persons affiliated with the Bank and with the management of the Bank, as well as all income and expenses on this basis are presented in the following table:

In thousand RSD	2018	2017
Income from fees for agent services	194,122	269,757

This income represents the arranger fee that Bank of China Srbija a.d. earned from a member of BOC Group, for the business of connecting and arranging issuance of the loans to the local corporate clients.

Salaries and other proceeds to the members of the Board of Directors, Executive Board and other key management staff of the Bank during 2018 and 2017 are shown in the following table:

In thousand RSD	**2018**	**2017**
Gross salaries of key management	61,247	40,745
Fees to members of the Board of Directors and the Auditing Committee	13,877	11,496
Total	**75,124**	**52,241**

25 EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the date of compilation of the balance sheet that may affect the Bank's financial statements.

President of the Executive Board	Member of the Executive Board
Zhu Lianqi	Slaviša Aleksić

Belgrade, 18 March 2019

ANNUAL BUSINESS REPORT
BANK OF CHINA SRBIJA AD FOR 2018

April 2019

Content

Description of business activities and organizational structure of the Bank

General information about Bank of China Srbija a.d. Beograd

Bank of China Serbia a.d. Belgrade (hereinafter: "the Bank") was established on December 22, 2016.

In accordance with the decision of the National Bank of Serbia from December 20,2016 and Memorandum of association the Bank is registered to perform the following tasks:

- Deposit activities
- Credit activities
- Foreign exchange operations, foreign currency operations and exchange transactions
- Payment transactions
- Issuing payment card
- Activities regarding securities
- Issuing guaranties, sureties on promissory notes and other types of warranties
- Purchase, sale and collection of receivables (factoring, forfeiting and etc)
- Activities for which it is authorized by law
- Providing other financial services.

Founder and owner of 100% shares is Bank of China (Hungary), Close Ltd.

Bank is located at Bulevar Zorana Đinđića 2a, 11070 Novi Beograd. ID number 21251640, and Tax ID number is 109837136.

Organizational structure

Managing bodies: General assembly, Board of directors and Executive board.

Bank formed following committee: Audit committee, Credit committee, Asset and liability management committee, Risk and control committee. Per need, Bank can form additional committees.

The Bank has the following organizational units, listed per hierarchical level: sectors, departments and sections. The Bank will maintain the organizational structure in a way to clearly and consistently separate the risk-taking activities, risk management activities and support activities.

Financial position and business results

Business policy of the Bank defines the indicative target values of the key positions of the balance sheet and the income statement for the period of the three full business years. For the period of operation in 2018 (from the moment of establishment until the end of the calendar year), the target values are not specially determined, except the acquisition of fixed assets and the establishment of the reporting process.

During the year, the Bank realized significant incomes based on providing agent services in the amount of RSD 230,086 thousand, intergroup income fees in the amount of RSD 194,122 thousand, as well as interest income in the amount of RSD 8,505 thousand.

The total balance sheet amount as at 31 December 2018 is RSD 27,398,407 thousand (2017: RSD 1,851,522 thousand). During the year, the Bank acquired fixed assets in the amount of RSD 4,171 thousand (2017: 132,557 thousand). In 2017, the investments were significantly higher in order to create preconditions for the development of business activities. The rest of the assets represent giro account at the National Bank of Serbia (RSD 2.820.173 thousand), nostro account (RSD 14.018.924 thousand), deposits given to the member banks of the Bank of China Group (RSD 10.431.980 thousand) and special purpose deposit (RSD 2.248 thousand) at another domestic bank.

Total capital of the Bank as at 31.12.2018 is RSD 1,903,525 thousand (2017: RSD 1,820,751 thousand) and consists of the share capital in the amount paid by the shareholders on 28.12.2016, as well as the realized profit at the end of the current business year in the amount of RSD 82,774 thousand and the loss of the previous year in the amount of RSD 23,136 thousand.

During the year, Bank had exposures based on exposure on nostro accounts in the amount of RSD 14,018,923 thousand, given deposits to other banks in the amount of RSD 10,431,980 thousand and a special purpose deposit in the amount of RSD 2,250 thousand. During 2018, the Bank started issuing performance guarantees in the amount of RSD 151,200 secured by counter guarantees given by members of the Bank of China Group. The capital adequacy ratio as at 31 December 2018 was 29.78% (2017: 8,102.86%).

in RSD thousand

Income statement	2018	2017
Net interest income	**6.184**	**382**
Net fee and commission income	**422.914**	**269.748**
NET OPERATING INCOME	531.786	273.843
Operating expenses	-428.520	-295.705
PROFIT/(LOSS) BEFORE INCOME TAX	**103.266**	**-21.862**
PROFIT/(LOSS) AFTER TAXES	**84.191**	**-24.553**
BALANCE SHEET		
Cash and balances with Central Bank	2.820.173	1.694.412
Loans and receivables from banks and other financial institutions	24.457.428	22.067
Intangible assets	24.393	33.966
Property, plant and equipment	76.278	98.591
Deferred tax assets	5.648	-
Other assets	14.487	2.486
ASSETS	**27.398.407**	**1.851.522**
Deposits and other liabilities due to customers	25.426.871	171
Provisions	64	-
Current tax liabilities	21.596	-
Deferred tax liabilities	3.373	-
Other liabilities	42.978	32.017
TOTAL LIABILITIES	**25.494.882**	**32.188**
TOTAL EQUITY	**1.903.525**	**1.819.334**
TOTAL LIABILITIES AND EQUITY	**27.398.407**	**1.851.522**
Capital adequacy ratio	**29.78**	**8102.86**
Number of employees	**26**	**15**
Number of organizational units	**1**	**1**

Environmental protection investment

In the period from January 1, 2018 until December 31, 2018, the Bank did not have any investments in the field of environmental protection

Significant event after the end of the business year

At the end of the business year, there were no events that materially impacted the financial statements relating to the business year 2018.

Planned future development

From the introduction of "One belt, one road" initiative in 2013, China's economic cooperation with Serbia and other European countries has increased. The Bank's plan is to follow projects related to Chinese investments in Serbia, especially in areas such as infrastructure development, manufacturing and telecommunications.

In addition, the Bank will focus on promoting its own business activities and acquiring clients in Serbia and the region.

During 2018, the Bank as part of Bank of China Limited group participated in "Summit 16 + 1" held in Belgrade. The Bank's objective is to connect Chinese companies with companies from Central and Eastern Europe and, when business cooperation is realized, to financially support joint projects.

Research and development activities

Bank conducts research and development activities of its financial products offer in order to respond to clients' needs. That is done by:

- - analysis and monitoring of events in the macroeconomic environment and industrial factors that affect the demand for banking products,
- - market research of financial services and offers of competitive banks in order to adjust and optimize the offer,
- - analyzes of the most important economic entities operating in the target markets of the Bank.

Purchase of own shares information

In the period from January 1, 2018 to December 31, 2018, the Bank did not buy out its own shares.

Branches

As of December 31, 2018, the Bank did not have branches.

Financial instruments applied during the period

In the period from January 1, 2018 until December 31, 2018, Bank did not use financial instruments.

Risk management

Competence

The Board of director is responsible for establishing internal controls system and monitoring their effectiveness. The Board of director adopts Strategies and Policies of Risk Management, as well as the Bank's Capital Management Strategy, proposed by the Executive Board.

The Executive Board implements the mentioned strategies and policies, by adopting procedures for risk management and ensuring their implementation. The Executive board analyzes the risk management system and at least on quarterly level reports to the Board of director about level of risk exposure and risk management.

It is also within the competence of the Board of Directors to determine the amounts to which the Bank's Executive Board may decide on the placements and borrowings of the Bank, as well as the decision on the placements and borrowing of the Bank over these amounts and gives prior consent for the Bank's exposure to each individual person or group of connected persons exceeding 10 % of the Bank's capital, or to increase this exposure over 20% of the Bank's capital.

The Board of directors ensures the implementation of the internal capital adequacy assessment process of the Bank.

Internal regulation

Highest level document for risk management is Risk management strategy.

Basic set of principles are:

1. Compliance with regulatory requirement - fully compliant with all applicable local law regulations.
2. Appropriate balance between risk and return - the balance is achieved through active control. Every type of business shall at least gain benefits that match the risk it bears, and optimize capital allocation.

3. Independence and professionalism - risk management units and personnel is independent from business units, and should provide independent views and professional opinions for related risks arising from business development.
4. Clarify rights and responsibilities - accountability shall be carried out through a strict internal control mechanism, specific division of responsibilities and clearly defined rights and responsibilities.

5. Forward-looking and proactive approach – risk and business departments shall cooperate with each other, study and manage risks in a forward-looking manner, actively identify, improve management and control measures, and ensure risks are under control.
6. "know your customers", "know your businesses"- emphasizing on new products and new businesses to ensure risk margin is measurable and risks are acceptable.
7. Consistence and coherence – Bank shall implement a coherent risk appetite and risk management strategy and carry out consolidated risk management of all members of the Group in order to ensure consistency between the objectives of risk management and business development.
8. Differentiated and controllable - the Bank shall manage risks on differentiated and controllable way, in line with the external market environment and its own risk management capability in order to make risk management more flexible and pragmatic.
9. Substance over the form should prevail – meaning all information should be considered as the final step.

Risk appetite refers to risk level tolerable to the Bank in course of maximizing the interest on the behalf of the founder according to requirements and expectation of interested parties (regulatory authorities, depositors,..)The Bank seeks to maintain a moderate risk appetite and reach a balance between risk and return, in line with the principle "rational, stable and prudent".

Risk appetite indicators are:

- Return on equity (ROE)
- Capital adequacy ratio (CAR)
- Risk adjusted return on capital (RAROC)

Financial risk exposure

As of December 31, 2018, the Bank had funds on the account at National Bank of Serbia in the amount of RSD 2,820,173 thousand, nostro account exposure in the amount of RSD 14,018,923 thousand, deposits to members of the Bank of China Group in the amount from RSD 10,431,980 thousand and a special purpose deposit of RSD 2,250 thousand. The other exposure relates to accrued income from interest and fees, as well as receivables based on interest.

On the other hand, Bank had significant increase in liabilities for deposits in 2018, related to the beginning of cooperation with legal entities primarily in the fields of mining, construction and transport.

As for the credit risk, the Bank all placements related to deposits placed to the members of the Bank of China Group was classified as Level 1, judging by the credit quality level of these banks, as well as due to the fact that these deposits do not exceed the maturity of 3 months.

From off-balance sheet records, the Bank issued performance guarantees covered by counter-guarantees by the Bank of China Beijing Branch.

Regarding foreign exchange risk, the Bank managed to maintain the level of risk within the legal framework during the year. As at December 31, 2018, the foreign exchange risk level was 3.72%.

Interest rate risk is not significant, as the Bank received funds from clients in the form of transaction deposits, placed within the Bank of China Group, with short maturities.

Due to the aforementioned, the bank is not significantly exposed to financial risks as of December 31, 2018.

Capital management

Capital management objectives of the Bank, which represent a wider concept than the amount of capital shown in the balance sheet, are:

- Ensuring compliance with the requirements of the National Bank of Serbia;

- Ensuring the possibility of long-term business continuity while providing returns to shareholders and benefiting other stakeholders; i

- Providing a strong capital base in support of the further development of the Bank's operations.

The Bank manages the capital structure and performs adjustments in accordance with changes in the economic conditions and risk related to the Bank's activities. The Bank's management, regularly monitors capital adequacy indicators and other performance indicators prescribed by the National Bank of Serbia and submits quarterly reports to the National Bank of Serbia on the realized values of the indicators.

President of the Executive board

Zhu Lianqi

Member of Executive Board

Slaviša Aleksić