# BANK OF CHINA SRBIJA A.D. BEOGRAD

# FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2020

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

## INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF BANK OF CHINA SRBIJA A.D. BEOGRAD

### Opinion

We have audited the financial statements of Bank od China Srbija a.d. Beograd (the Bank), which comprise the balance sheet as at 31 December 2020, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for opinion

We conducted our audit in accordance with Standards on Auditing applicable in the Republic of Serbia. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

### Other information included in the Bank's Annual Business Report

Other information consists of the information included in the Annual business report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the legal requirements of the Republic of Serbia.

Our opinion on the financial statements does not cover the Other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with Law on Accounting of Republic of Serbia, in particular, whether the other information complies with the Law on Accounting of Republic of Serbia in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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**Other information included in the Bank's Annual Business Report (continued)**

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

**Responsibilities of management and Audit Committee for the financial statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards applicable in Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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**Auditor's responsibilities for the audit of the financial statements (continued)**

As part of an audit in accordance with Auditing Standards applicable in Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Belgrade, 22 March 2021

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

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

Nikola Ribar
Authorized auditor

中国銀行（塞尔维亚）有限公司
BANK OF CHINA SRBIJA A.D. BEOGRAD

# ANNUAL FINANCIAL STATEMENTS FOR 2020

## BANK OF CHINA SRBIJA AD BEOGRAD

March 2021

## INCOME STATEMENT
**for the period from 01 January to 31 December 2020**

(in RSD thousand)

| | Note | 2020 | 2019 |
|---|---|---|---|
| Interest income | 4 | 30,100 | 172,604 |
| Interest expense | 4 | (6,794) | (27,399) |
| **Net interest income** | | **23,306** | **145,205** |
| Fee and commission income | 5 | 167,225 | 275,077 |
| Fee and commission expense | 5 | (3,920) | (2,739) |
| **Net fee and commission income** | | **163,305** | **272,338** |
| Net gains on hedging | 6 | (1,123) | (441) |
| Net profit on foreign exchange differences and foreign currency clause | 7 | 118,759 | 73,591 |
| Impairment losses from financial assets and credit risk off-balance sheet items | 28.3 | (74) | (55) |
| **NET OPERATING INCOME** | | **304,173** | **490,638** |
| Salaries, wages and other personal expenses | 8 | (309,832) | (245,232) |
| Depreciation costs | 9 | (76,187) | (73,644) |
| Other income | 10 | - | 9,477 |
| Other expenses | 11 | (102,309) | (129,607) |
| **PROFIT BEFORE INCOME TAX** | | **(184,155)** | **51,632** |
| Income tax | 12 | - | (12,172) |
| Deferred tax gain | 12.1 | 9,805 | - |
| Deferred tax loss | 12.1 | - | (5,800) |
| **PROFIT (LOSS) AFTER TAXES** | | **(174,350)** | **33,660** |
| **EARNINGS PER SHARE** | | | - |
| Basic earnings per share (in RSD) | 13 | (1,744) | 337 |

Belgrade, 22 March 2021

Chairman of the Executive Board

Keqin Chen

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 2020**

(in RSD thousand)

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Profit/(Loss) for the period** | | **(174,350)** | **33,660** |
| Other comprehensive income | | - | - |
| **TOTAL COMPREHENSIVE INCOME** | | **(174,350)** | **33,660** |

Belgrade, 22 March 2021

Chairman of the Executive Board

Keqin Chen

Member of the Executive Board

Slaviša Aleksić

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**BALANCE SHEET**
**as of 31 December 2020**

| (in RSD thousand) | Note | 2020 | 2019 |
|---|---|---|---|
| ***ASSETS*** | | | |
| Cash and assets held with the central bank | 14 | 4,672,568 | 3,440,539 |
| Receivables under derivatives | 15 | 234 | 544 |
| Loans and receivables from banks and other financial organizations | 16 | 7,910,411 | 6,516,791 |
| Intangible investments | 17 | 18,950 | 16,341 |
| Property, plant and equipment | 18 | 302,625 | 291,724 |
| Current tax assets | 19 | 16,131 | 31,776 |
| Deferred tax assets | 12 | 6,280 | - |
| Other assets | 20 | 14,042 | 18,581 |
| **TOTAL ASSETS** | | **12,941,241** | **10,316,296** |
| ***LIABILITIES*** | | | |
| Liabilities under derivatives | 15 | 1,798 | 986 |
| Deposits and other liabilities due to banks, other financial institutions and the Central Bank | 21 | - | 11,255 |
| Deposits and other liabilities due to customers | 22 | 10,865,916 | 7,621,457 |
| Provisions | 23 | 191 | 121 |
| Current tax liabilities | 19 | - | 25,659 |
| Deferred tax liabilities | 12 | - | 3,525 |
| Other liabilities | 24 | 310,501 | 716,108 |
| **TOTAL LIABILITIES** | | **11,178,406** | **8,379,111** |
| ***EQUITY*** | | | |
| Share capital | 26 | 1,843,887 | 1,843,887 |
| Gain (Loss) | 26 | 93,298 | 93,298 |
| Loss from previous year | | (174,350) | - |
| **TOTAL EQUITY** | | **1,762,835** | **1,937,185** |
| **TOTAL LIABILITIES AND EQUITY** | | **12,941,241** | **10,316,296** |

Belgrade, 22 March 2021

| Chairman of the Executive Board | Member of the Executive Board |
|---|---|
| Keqin Chen | Slaviša Aleksić |

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## STATEMENT OF CHANGES IN EQUITY
**for the period from 01 January to 31 December 2020**

| (in RSD thousand) | Share capital and other capital | Profit | Loss | Total |
|---|---|---|---|---|
| **Balance as at 01 January of the previous year** | **1,843,887** | **84,191** | **(24,553)** | **1,903,525** |
| Current year profit | - | 33,660 | - | 33,660 |
| Coverage of losses from previous periods | - | (24,553) | 24,553 | - |
| **Balance as at 31 December of the previous year** | **1,843,887** | **93,298** | **-** | **1,937,185** |
| **Balance as at 01 January of the current year** | **1,843,887** | **93,298** | **-** | **1,937,185** |
| Current year profit | - | - | | - |
| Covering loss from prior years | - | - | (174,350) | - |
| **Balance as of 31 December of the current year** | **1,843,887** | **93,298** | **(174,350)** | **1,762,835** |

Belgrade, 22 March 2021

Chairman of the Executive Board

Keqin Chen

Member of the Executive Board

Slaviša Aleksić

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## CASH FLOW STATEMENT
### for the period from 01 January to 31 December 2020

| (in RSD thousand) | 2020 | 2019 |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| **Inflows** | **197,437** | **451,623** |
| Interest receipts | 30,100 | 176,877 |
| Fee receipts | 167,337 | 274,746 |
| **Outflows** | **(485,475)** | **(399,665)** |
| Interest payments | (5,280) | (13,765) |
| Fee payments | (4,023) | (2,738) |
| Payments to and on behalf of employees | (226,179) | (197,128) |
| Cash for other taxes and contributions | (82,761) | (29,580) |
| Outflow to other operating expenses | (167,232) | (156,454) |
| *Net operating cash inflows before changes in placements and deposits* | (288,038) | 51,958 |
| **Decrease in placements and increase in deposits and other liabilities** | **6,316,436** | **18,758,758** |
| Decrease in loans and receivables due from banks, other financial institutions, central bank and customers | 2,927,169 | 18,339,920 |
| Increase in deposits to banks, other financial institutions, central bank and customers | 3,389,155 | 418,775 |
| Increase in other financial liabilities | 112 | 63 |
| **Increase in loans and decrease in deposits and other liabilities** | **(4,742,643)** | **(18,141,050)** |
| Increase in loans and receivables due from banks, other financial institutions, the central bank and customers | (4,718,248) | (3,531) |
| Decrease in deposits to banks, other financial institutions, central bank and customers | (24,279) | (18,137,455) |
| Decrease in other financial liabilities | (116) | (64) |
| *Net cash inflows from operating activities before income tax* | 1,285,755 | 669,666 |
| Income tax paid | - | (31,776) |
| **Net cash generated from operating activities** | **1,285,755** | **637,890** |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| **Outflows** | **(28,164)** | **(7,831)** |
| Purchase of intangible and property, plant and equipment | (28,164) | (7,831) |
| **Net cash outflow from investing activities** | **(28,164)** | **(7,831)** |
| Total net received cash | 6,513,873 | 19,210,381 |
| Total net cash payments | (5,256,282) | (18,580,322) |
| **NET INCREASE IN CASH** | **1,257,591** | **630.059** |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 3,440,539 | 2,820,173 |
| GAINS ON EXCHANGE | 4 | 120 |
| LOSS ON EXCHANGE | (25,566) | (9,813) |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **4,672,568** | **3,440,539** |

Belgrade, 22 March 2021

| Chairman of the Executive Board | Member of the Executive Board |
|---|---|
| Keqin Chen | Slaviša Aleksić |

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# NOTES TO THE FINANCIAL STATEMENTS

# FOR 2020

# BANK OF CHINA SRBIJA AD BEOGRAD

**March 2021**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

## 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 was made within the Company Registry in the Serbian Business Registers Agency.

In accordance with the decision of the National Bank of Serbia dated as of 20 December 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 December 2020, the Bank had no subsidiaries or branch offices within its composition.

As of 31 December 2020, the Bank had 30 employees (2019: 28 employees).

## 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 2020 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, 135/2014, 103/2018).

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.

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. BASIS FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

### 2.2 Changes in IFRS whose application is mandatory in 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 2020:

- **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. Management has assessed that effects of this changes will not have a material impact on the 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. Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate.

## 2. BASIS FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

### 2.2 Changes in IFRS whose application is mandatory in current period (continued)

There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.

### 2.3 Standards issued but not yet effective and not early adopted

- **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. The amendments have not yet been endorsed by the EU. Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

  These Amendments have not yet been endorsed by the EU.

  Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.

## 2. BASIS FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

### 2.3 Standards issued but not yet effective and not early adopted (continued)

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

  The amendments have not yet been endorsed by the EU.

  Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)**
  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

  Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.

## 2. BASIS FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

### 2.3 Standards issued but not yet effective and not early adopted (continued)

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The amendments have not yet been endorsed by the EU. Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.

## 3. ACCOUNTING POLICIES

The basic accounting policies applied during the compilation of the financial statements for 2020 are presented below.

### 3.1 Interest Income and Expenses

Interest income and expenses for all interest bearing financial instruments are recognized within the "interest income" and "interest expense" in the income statement using the effective interest rate method.

interest income or expense is recognized in the income from interest 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.

## 3. ACCOUNTING POLICIES (continued)

### 3.3 Conversion of foreign means of payment (continued)

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 determined 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.

## 3. ACCOUNTING POLICIES (continued)

### 3.6 Employee Compensation (continued)

*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

## 3. ACCOUNTING POLICIES (continued)

### 3.8 Financial Instruments (continued)

**Principles of valuation of financial instruments**

From the aspect of classification and measurement, the Bank classifies financial assets, except 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.

***(i) Classification and measurement***

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)

**Financial assets at amortized cost**

The Bank measures financial investments at amortized cost if both of the following conditions are met:

a) The financial entity is maintained within the business model with the aim of holding the financial asset for the purpose of collecting contracted cash flows,

b) The contractual terms of a financial asset give cash flows that are exclusively principal and interest payments (SPPI) on specified dates to the amount of outstanding principal.

**Financial assets at fair value through profit or loss**

This category consists of debt financial instruments in which cash flows are not just principal and interest payments. Fair value changes are recorded through the income statement,

Equity instruments held for trading are also classified into the fair value model through the profit and loss account.

## 3. ACCOUNTING POLICIES (continued)

### 3.8 Financial Instruments (continued)

***(i) Classification and measurement (continued)***

**Financial assets at fair value through other comprehensive income FVOCI**

The Bank classifies instruments as debt instruments measured by FVOCI when both of the following conditions are met:

a) The instrument is maintained within a business model whose goal is achieved by collecting contractual cash flows and selling financial assets,
b) The contractual terms of the financial asset pass the SPPI test.

Debt instruments by FVOCI are subsequently measured at fair value with gains and losses arising from changes in fair values recognized in other comprehensive income. Interest income and gains and losses on exchange differences are recognized in the income statement in the same way as for financial assets measured at amortized cost, The principle of cessation of recognition, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity in the income statement.

**Equity instruments at fair value through other comprehensive income FVOCI**

After initial recognition, the Bank classifies investments in equity instruments as "equity instruments under FVOCI when they meet the definition of Capital under IAS 32 Financial Instruments: Presentation and are not held as assets held for trading. Such a classification is determined by the instrument-by-instrument principle,

Gains and losses on these equity instruments are not reclassified to profit.

Dividends are recognized in the income statement as well as other operating income when the right to payment is established.

Equity instruments under FVOCI are not subject to impairment assessment.

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.

*Business model assessment*

The Bank conducted an analysis of business models at the level of the portfolio of financial assets. Existing portfolio policies and strategies were analysed, as well as their implementation in practice. Information and how to evaluate and report on portfolio performance, information on risks affecting portfolio performance and how they are managed are also taken into account. In addition, the frequency, volume and timing of the sale of financial assets in previous periods, the reasons for the sale and plans for the sale of financial assets in the next period are considered.

## 3. ACCOUNTING POLICIES (continued)

### 3.8 Financial Instruments (continued)

***(i) Classification and measurement (continued)***

*Review of instruments' contractual cash flow characteristics (the SPPI test – solely payment of principal and interest on the principal amount outstanding)*

In assessing whether contractual cash flows are only a payment of principal and interest, the Bank reviewed the contractual terms of the financial instruments and whether they contain provisions that may change the timing or amount of the contractual cash flows, which would result in a fair valuation of the instruments. The principal reflects the fair value at initial recognition less any subsequent changes, e.g. repayments. Interest must only represent consideration for the time value of money, credit risk, other underlying credit risks and profit margins consistent with the underlying credit functions. If cash flows introduce more than de minimis risk exposures or volatility that is inconsistent with underlying credit functions, the financial asset must be recognized in the FVPL.

The analysis concluded that there are no Bank's credit products whose contractual terms do not result in cash flows that represent only payment of principal and interest on the principal balance at specific dates, which would require a fair value measurement.

***(ii) Impairment of financial assets***

IFRS 9 requires the shift from an incurred loss model to an expected loss model. The expected loss model requires the Bank to recognize not only credit losses that have already occurred, but also losses that are expected to occur in the future. An allowance for expected credit losses (ECL) is required for all loans and other debt financial assets not held at FVTPL, 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 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL – lifetime expected credit loss). When determining whether the risk of default increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available, This includes both quantitative and qualitative information and analysis, based on the historical data and experience.

Based on the applied impairment methodology, the Bank, as well as the Group, classifies financial instruments into Stage 1, Stage 2, and Stage 3, as described below:

- Stage 1 – performing portfolio: no significant increase of credit risk since initial recognition, the Bank recognises an allowance based on 12-month period,
- Stage 2 – underperforming portfolio: significant increase in credit risk since initial recognition, the Bank recognises an allowance for lifetime period, and
- Stage 3 – impaired portfolio, significant increase in credit risk after initial recognition, the Bank recognises lifetime allowances for these financial assets.

The definiton of default and delay is in the line with Decision of NBS about capital adequacy and with Instructions of NBS for determining the status of default.

ECL for Stage 1 financial assets is calculated based on 12-month PDs (probability of default) or shorter period PDs, if the maturity of the financial asset is shorter than 1 year, The 12-month PD already includes macroeconomic impact effect, Impairment losses in stage 1 are designed to reflect impairment losses that had been incurred in the performing portfolio, but have not been identified,

**3. ACCOUNTING POLICIES (continued)**

**3.8 Financial Instruments (continued)**

***(ii) Impairment of financial assets (continued)***

LECL for Stage 2 financial assets is calculated on the basis of lifetime PDs (LPD) because their credit risk has increased significantly since their initial recognition, This calculation is also based on forward-looking assessment that takes into account number of economic scenarios in order to recognise the probability of losses associated with the predicted macro-economic forecasts,

For financial instruments in Stage 3 the same treatment is applied as for those considered to be credit impaired in accordance with IAS 39 (NPL).

***(iii) De-recognition***

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***

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.

**3. ACCOUNTING POLICIES (continued)**

**3.8 Financial Instruments (continued)**

***(v) Accounting policy for modified financial assets***

In the event of modification of the contractual cash flows of the financial asset, the Bank assesses whether such modification results in the existing financial asset becoming a new financial asset. Accounting policy for modified financial assets differentiates between modifications of contractual cash flows that occur from commercial reasons and those, occurring due to financial difficulties of a client. Modifications of financial assets due to commercial reasons present the derecognition event.

In relation to clients in financial difficulties, significant modifications (change of the currency of the asset, introduction of the option of conversion of debt into equity, replacement of the original debtor with a new debtor, which is not a related person for the original debtor, and if the modification is such as to change the result of the SPPI test) lead to derecognition event whereas modifications that are not significant (where exposure to risks remains broadly the same) do not lead to derecognition. For the latter the Bank recognizes modification gain or loss,

**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.

## 3. ACCOUNTING POLICIES (continued)

### 3.10 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% |
| Electronic network, air conditioners, pipes and heating | 4% |
| Computer equipment | 33% |
| Other equipment | 14.50% |
| 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".

### 3.11 Leases

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Bank, as a lessee, on the day of lease establishing (ie. on the day when the assets are available for use): (a) recognized assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value (less than USD 5 000); and (b) show depreciation of lease assets separately from interest on lease liabilities in the income statement.

The Bank adopts the same depreciation policy for leased assets (right of use of asset) as those for which it has title rights (ie. measures them in the amount of amortized cost adjusted for changes in lease liabilities). The cost of the right of use on the recognition date is equal to the amount of the lease liabilities increased by the initial direct dependent costs and payments of lease liabilities made before or on the recognition date and reduced by discounts. Lease liabilities are equal to the present value of the lease payment during the lease term.

The bank, as the lessee, decides not to separate the lease into a part that is a lease and a non-lease, and instead calculates as if it were a single component of the lease.
The bank, as a lessor, separates its leases as operating or financial leasing and calculates those two types of leases differently. Leases in which the Bank does not transfer substantially all the risks and rewards in relation to ownership are classified as operating leases. Lease income is recognized in operating income in the income statement on a straight-line basis over the term of the lease.

## 3. ACCOUNTING POLICIES (continued)

### 3.12 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.

### 3.13 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.

### 3.14 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.

### 3.15 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.

### 3.16 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. ACCOUNTING POLICIES (continued)

### 3.17 Loan liabilities

Loan liabilities are initially recognized at fair value reduced by transaction costs incurred. Loan liabilities are subsequently stated at amortized cost.

Borrowings are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 3.18 Provisions

Provisions can be created if the following conditions are met:

- A current liability (legal or derived) exists as a result of some past event
- There is a probability that the settlement of the liability requires an outflow of funds which generates economic benefit and
- A reliable estimate of the amount of the liability can be made.

Provisions are measured at the present value of expected future payments to be made to settle liabilities using the discounted rate that reflects current market assessments of the time value of money.

Provisions for liabilities and expenses in the financial statements are stated under the heading of Provisions.
Provisions are reviewed at every balance sheet date and adjusted so as to reflect the bestcurrent estimate, If it is no longer probable that an outflow of funds which generates economic benefit is required for the settlement of the liability, the provision is derecognized through Profit and loss.

### 3.19 Equity

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

### 3.20 Significant accounting estimates and judgements

The preparation and presentation of the financial statements requires management to use the best estimates and reasonable assumptions that affect the presented amounts of assets and liabilities, the disclosure of contingent receivables and payables as at the reporting date as well as the disclosure of income and expenses during the reporting period.

These estimates and assumptions are based on the information available as at the date of the financial statements. The actual results may differ from these estimates. Estimates and related assumptions are reviewed on an ongoing basis, and where adjustments are required, they are recognized in the income statement for the periods in which they have become known.

Critical estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are presented below.

#### (a) Preparation of financial statements on a going concern basis Position of the Bank

The Bank's management is not aware of any material uncertainties that may cause doubts about the possibility of discontinuity of the Bank's operations, Given the above, the financial statements are prepared under the going concern basis.

#### (b) Income tax

The Bank is subject to income tax in the Republic of Serbia. Determining tax liabilities requires the use of certain estimates. In a situation where the final tax liability is different from the initiallyrecognized tax liabilities, this difference affects the tax liability of the period in which the difference was found.

## 3. ACCOUNTING POLICIES (continued)

### (c) Off-balance sheet records

In the off-balance sheet records, the Bank records business events that do not have a direct impact on the size and content of items in the Balance Sheet at the time of their creation, but are the source of information on operations, determining operating risks and eventual future liabilities.

In the off-balance sheet, the Bank records all the activities that represent a potential risk for it (issued guarantees and other guarantees, uncovered letters of credit, approved unused loans and liens, transactions with derivative financial instruments, other assumed and contingent liabilities).

## 4. INTEREST INCOME AND EXPENSE

| **In RSD thousand** | **2020** | **2019** |
|---|---|---|
| **Interest income** | | |
| Interest income from deposits – domestic banks | 10,473 | 26,726 |
| Interest income from deposits – foreign banks | 19,627 | 145,878 |
| **Total intrest income** | **30,100** | **172,604** |
| **Interest expense** | | |
| Interest expense from deposits – domestic banks | - | (427) |
| Interest expense from deposits – foreign banks | (246) | (16,608) |
| Interest expense from deposits in foreign currency – foreign banks | (4,329) | (3,958) |
| Lease interest expense | (2,219) | (6,406) |
| **Total intrest expense** | **(6,794)** | **(27,399)** |
| **Total net income** | **23,306** | **145,205** |

Interest income on loans to the National Bank of Serbia in the amount of RSD 10,473 thousand (2019: RSD 26,726 thousand) refer to an increase in activities in placing excess liquidity with the National Bank of Serbia. Interest income from foreign banks in the amount of RSD 19,627 thousand relates to interest income earned from placements within a group (2019: RSD 145,878 thousand).

Interest expense in the amount of RSD 27,399 thousand (2019: RSD 2,321 thousand) incurred as a result of increased activity of raising funds from the economic sector as well as the foreign bank sector that are members of the group to which the bank belongs.

## 5. FEE AND COMMISSION INCOME AND EXPENSE

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| **Income from bank charges** | | |
| Fee and commission income from payment transactions | 27,787 | 8,512 |
| Fee and commission income from guarantees | 9,530 | 7,359 |
| Fee and commission income intra group charges | 115,798 | 259,144 |
| Other fee income | 14,110 | 62 |
| **Total income** | **167,225** | **275,077** |
| **Expense from bank charges** | | |
| Payment operations in foreign currency | (2,764) | (1,686) |
| Payment operations in RSD | (1,156) | (1,052) |
| Other fees and commissions | - | (1) |
| **Total expense:** | **(3,920)** | **(2,739)** |
| **Net fee and commission income** | **163,305** | **272,338** |

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 129,908 thousand (2019: RSD 259,206 thousand).

## 6. NET LOSSES ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRMENTS

The Bank has increased its activities in buying and selling foreign currencies for its account and client account.The valuation of foreign exchange spot transactins reflects the gaines and losses from changes in the fair value of financial instruments, which at the end of the year was reflected in a net loss of RSD 1,123 thousand (2019: RSD 441 thousand).

## 7. NET FOREIGN EXCHANGE GAINS

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| Foreign exchange gains – exchange operations | 144,325 | 83,283 |
| Foreign exchange losses – exchange operations | (22,940) | (9,441) |
| Net result from exchange of balance sheet items | (2,626) | (251) |
| **Net income from foreign exchange** | **118,759** | **73,591** |

## 8. SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| Cost of net salaries | 187,295 | 162,779 |
| Allowance costs | 2,012 | 1,892 |
| Taxes | 41,124 | 25,453 |
| Contributions | 42,529 | 34,724 |
| Other personal expenses | 36,872 | 20,384 |
| **Total** | **309,832** | **245,232** |

The amount of salary expenses rose because the average number of employees increased to 30 (2019: average no. of employees was 28).

Other personal expenses in the amount of RSD 36,872 thousand (2019: RSD 20,384 thousand) mainly relate to the provision for transportation costs and the expenses for business trips.

## 9. DEPRECIATION/AMORTISATION EXPENSE

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| Amortization of intangible assets (note 17) | 17,586 | 13,216 |
| Depreciation of fixed assets (note 18) | 23,489 | 27,628 |
| Amortisation expense – lease (note 18) | 35,112 | 32,800 |
| **Total** | **76,187** | **73,644** |

Depreciation and amortization expense increased significantly by the amount of depreciation over the lease assets and regular fix assets, RSD 76,187 (2019: RSD 73,644).

## 10. OTHER INCOME

There were no other income durring 2020 (2019: 9,477 RSD).

## 11. OTHER EXPENSES

| **In RSD thousand** | **2020** | **2019** |
|---|---|---|
| Office materials, small inventory costs | 2,744 | 827 |
| Rental costs | 3,050 | 3,691 |
| Fuel expenses | 550 | 1,179 |
| Advertising and marketing costs | 1,165 | 1,779 |
| Other labor services fee | 2,332 | 4,279 |
| Security device expense | 7,319 | 5,578 |
| Mobile and fixed phone bills | 2,540 | 3,068 |
| Rent for office building – legal entity landlord | 6,299 | 6,092 |
| Other real estate rent – individual landlord | 31,320 | 27,071 |
| Property management fee | 3,488 | 3,518 |
| Vehicle rent | 3,605 | 1,496 |
| Network special line fee | 2,964 | 2,903 |
| Transfer expenditure to overseas branches – BOC core software | 12,908 | 9,709 |
| Business travel expenses | 1,189 | 13,910 |
| Hospitality and marketing meeting expense | 2,427 | 11,323 |
| Other information consulting | 7,028 | 5,244 |
| Other operating expenses | 1,341 | 1,750 |
| Membership fees | 1,681 | 1,511 |
| Deposit insurance premiums at the Deposit Insurance Agency | 460 | 19,648 |
| Un-operating expenses | 3,018 | 3,107 |
| Taxes, fees and charges to the regulatory authorities | 1,881 | 1,924 |
| Tax and contributions on salary (employer burden) | - | - |
| Other operating expenses | 3,000 | - |
| **Total** | **102,309** | **129,607** |

Othe real estate rent in the amount of RSD 31,320 thousand (2019: RSD 27,061 thousand) relate to rents of flats for foreign employees, which are part of their salaries.

During 2020, there was an increase in the costs of BOC software and they amount to RSD 12,908 thousand (2019: 9,709 thousand), which is a consequence of increased investment in the bank's information system and improvement of the payment system.

Other operating expenses refer to donation expenses during the year for humanitarian purposes.

## 12. INCOME TAX

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| Current tax | - | 12,172 |
| Deferred tax income | (9,805) | - |
| Deferred tax expense | - | 5,800 |
| **Total** | **(9,805)** | **17,972** |

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 | 2020 | 2019 |
|---|---|---|
| Gain / (Loss) before tax | (184,155) | 51,632 |
| Tax rate | 15% | 15% |
| Calculated income tax | 0 | 7,745 |
| Tax effect of non-deductible expenses | 3,076 | 4,427 |
| Tax effect of final tax billing | - | - |
| **Tax expense for the period** | - | **12,172** |

### 12.1 Calculation of deferred tax income / expense

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| 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 | 9,805 | (152) |
| **Net deferred tax income / (expense)** | **9,805** | **(5,800)** |

In 2020, the Bank had an increase in deferred tax assets because the net book value of fixed assets is higher than the tax net book value of fixed assets.

### 12.2 Deferred tax assets /liabilities

At year-end, deferred tax assets amount to RSD 9,805 thousand (2019: RSD 0 thousand).

At year-end, deferred tax liabilities amount to RSD 0 thousand (2019: RSD 3,525 thousand). This temporary tax difference arises due to the difference in the methods of calculating the depreciation of fixed assets according to accounting policies and according to the tax prescribed depreciation rates.

## 13. 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** | **2020** | **2019** |
|---|---|---|
| Gain attributable to equity holders of the Company | (174,350) | 33,660 |
| Weighted average number of ordinary shares in issue | 100 | 100 |
| **Basic earnings per share (expressed in RSD per share)** | **(1,744)** | **337** |

## 14. CASH AND DEPOSITS HELD WITH THE CENTRAL BANK

| **In RSD thousand** | **2020** | **2019** |
|---|---|---|
| Current account at National Bank of Serbia | 4,098,777 | 2,969,580 |
| Regulatory reserve in RSD at NBS | 573,791 | 470,959 |
| **Total cash and deposits held with NBS:** | **4,672,568** | **3,440,539** |

The regulatory reserve increased compared to the previous year, RSD 573,791 thousand (2019: 470,959 thousand), as a result of the increase in transaction deposits of the bank's clients.

## 15. RECEIVABLES AND LIABILTIES UNDER DERIVATES

As of 31 December 2020 Bank had contracts for the buy and sale of foreign exchange which produced receivables and liabilities based on the valuation of these financial derivatives. Balance of receivables as of 31.12.2020. is RSD 234 thousand, while the balance of liabilities is RSD 1,798 thousand These receivables were charged and liabilities were paid at the completion of the buy and sale transaction at the beginning of 2021.

## 16. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANISATIONS

***Structure by product***

| In RSD thousand | Moody's | 2020 | 2019 |
|---|---|---|---|
| **Foreign currency** | | | |
| **FX current accounts with foreign banks** | | | |
| Bank of China Limited, Hungary Branch | A1 | 3,621,994 | 5,831,037 |
| Bank of China Frankfurt Branch | A1 | 1,418,154 | 685,321 |
| **Loans and deposits to other banks** | | | |
| Royal bank of Canada, Montreal, H.O. | Aa2 | 20 | 103 |
| Bank of China Frankfurt Branch | A1 | - | - |
| Bank of China Macau Branch | A1 | 2,869,911 | - |
| Special purpose deposits – Komercijalna Bank | unrated | - | - |
| Receivables for interest income on loans and deposits | | 1 | - |
| Accrued recivabels from guarantees fee | | 321 | 330 |
| **Total** | | **7,910,411** | **6,516,791** |

The Bank foreign currency current accounts relates to the nostro account held with foreign banks. These accounts are within BOC Group.

At present, all loans and receivables are classified as impairment Level 1 and there has been no movement to other levels during the year. Since the funds have been placed for a term of up to 90 days so no material impairment has been determined (Expected Credit Loss) and all funds have been placed within the group. As of 31.12.2020. in addition to funds on nostro accounts, a short-term placement in the amount of USD 30 million (RSD 2,869,911 thousand) was given to the Bank of China London Branch.

## 17. 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 |
|---|---|---|
| <u>Cost</u> | | |
| **As at 01.01.2019.** | **37,941** | **37,941** |
| Additions | 5,163 | 5,163 |
| **As at 31.12.2019.** | **43,104** | **43,104** |
| Additions | 20,197 | 20,197 |
| **As at 31.12.2020.** | **63,301** | **63,301** |
| <u>Impairment provisions</u> | | |
| **As at 01.01.2019.** | **(13,548)** | **(13,548)** |
| Depreciation | (13,216) | (13,216) |
| **As at 31.12.2019.** | **(26,764)** | **(26,764)** |
| Depreciation | (17,586) | (17,586) |
| **As at 31.12.2020.** | **(44,351)** | **(44,351)** |
| <u>Net book value as at</u> | | |
| **31. December 2020.** | **18,950** | **18,950** |
| **31. December 2019.** | **16,341** | **16,341** |

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

## 18. PROPERTY, PLANT AND EQUIPMENT

| In RSD thousand | Property – rights-of-use | Vehicles – rights-of-use | Equipment and other assets | Investments in other fixed assets | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 01.01.2019. | - | - | **65,489** | **58,623** | **124,112** |
| Additions | - | 2,806 | 2,704 | - | 9,079 |
| Other | 263,989 | 6,375 | - | - | 266,795 |
| **As at 31.12.2019.** | **263,989** | **9,181** | **68,193** | **58,623** | **399,986** |
| Additions | 29,765 | 33,149 | 6,587 | - | 69,501 |
| Other | - | - | - | - | - |
| **As at 31.12.2020.** | **293,754** | **42,330** | **74,780** | **58,623** | **469,487** |
| **Impairment provisions** | | | | | **-** |
| As at 01.01.2019. | - | - | (25,363) | (22,472) | (47,835) |
| Depreciation | (27,076) | (5,724) | (15,903) | (11,725) | (60,428) |
| **As at 31.12.2019.** | **(27,076)** | **(5,724)** | **(41,266)** | **(34,197)** | **(108,263)** |
| Depreciation | (30,364) | (4,748) | (11,762) | (11,725) | (58,599) |
| **As at 31.12.2020.** | **(27,076)** | **(5,724)** | **(41,266)** | **(45,922)** | **(166,862)** |
| **Net book value as at** | | | | | |
| **31. December 2020.** | **236,314** | **31,858** | **21,752** | **12,701** | **302,625** |
| **31. December 2019.** | **236,913** | **3,457** | **26,927** | **24,427** | **291,724** |

During the year, there was an increase in fixed assets in amount of RSD 69,501 thousand. This is an additional lease of office space due to the expansion of the server. There was also a renewal of the lease of vehicles as well as the lease of additional electronic equipment in the form of servers and lines.

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 that:

- 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 2020,
- The residual value of intangible assets, software and licenses, is equal to the carrying net book value recorded as at 31 December 2020.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020**

## 19. CURRENT TAX ASSETS AND LIABILITIES

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| Current tax assets | 16,131 | 31,776 |
| **Total** | **16,131** | **31,776** |

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| Current tax liabilities | 0 | 25,659 |
| **Total** | **0** | **25,659** |

Current tax assets represent advance payments for corporate income tax during 2020. At the begining of 2021 closing of total tax recivables and liabilities made during 2020, takes place.

## 20. OTHER ASSETS

| In RSD thousand | 2020 | 2019 |
|---|---|---|
| Recivables for prepaid tax in rsd | 0 | 893 |
| Other receivables for deposits to lessors | 11,412 | 11,027 |
| Other receivables from suppliers | 770 | 5,518 |
| Accruals - rental fee | 1,860 | 1,143 |
| **Total** | **14,042** | **18,581** |

Receivables from lessors relate to receivables from corporate clients and individuals in the amount of RSD 11.412 thousand (2019: RSD 11,027 thousand).

## 21. DEPOSITS AND OTHER LIABILITIES TO BANKS

Deposits and other liabilities to banks as at 31 December 2020 amount to RSD 0 thousand (2019: RSD 11,255 thousand). These obligations comprise from the up front guarantees fees collected from the BOC Group members.

## 22. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

As of 31 December 2020 the Bank had liabilities for deposit in the total amount of RSD 10,865,916 thousand (2019: RSD 7,621,457 thousand). The sectorial structure of these deposits relates in most to the corporate sector.

***Structure by product***

| **In RSD thousand** | **2020** | **2019** |
|---|---|---|
| **RSD** | | |
| Demand deposits | 2,673,815 | 1,343,021 |
| **Total in RSD** | **2,673,815** | **1,343,021** |
| **Foreign currency** | | |
| Demand deposits | 8,192,101 | 6,278,436 |
| Time deposits | - | - |
| Other interest payables on loans, deposits and other financial liabilities | - | - |
| **Total in foreign currency** | **8,192,101** | **6,278,436** |
| **Total** | **10,865,916** | **7,621,457** |

***Structure by sector***

| **In RSD thousand** | **2020** | **2019** |
|---|---|---|
| Corporate | 10,865,612 | 7,621,457 |
| Public enterprises | 304 | - |
| **Total** | **10,865,916** | **7,621,457** |

## 23. PROVISIONS

At the end of the year provisions amounted to RSD 191 thousand (2019: RSD 121 thousand). This rise in provisions is due to issued guarantees to clients which are secured with contra guarantees issued by members of the BOC Group. This rise in provisions directly influenced impairment losses from financial assets and credit risk off-balance sheet items.

## 24. OTHER LIABILITIES

| **In RSD thousand** | **2020** | **2019** |
|---|---|---|
| **RSD** | | |
| Liabilities towards employees | - | - |
| Payables for other tax and contributions | - | - |
| Accrued other expenditures in dinars | 22,478 | 22,957 |
| **Total in RSD** | **22,478** | **22,957** |
| **Foreign currency** | | |
| Lease liabilities in foreign currency | 271,075 | 242,228 |
| Liabilities accrued in foreign currency | - | 449,250 |
| Liabilities for calculated fee and commission on the basis of other assets in foreign currency | 11,764 | - |
| Liabilities on transitory and temporary accounts - Unallocated inflow of funds | 1,245 | - |
| Accrued other expenditures in foreign currency | 3,939 | 1,673 |
| **Total in foreign currency** | **288,023** | **693,151** |
| **Total** | **310,501** | **716,108** |

## 25. LEASE

The Bank has lease agreements for business premises, lease of private apartments to employed foreigners, lease of additional servers at the reserve location (DR location) and lease agreements for business vehicles. The lease agreement is concluded for the following period: business premises for up to 10 years, private apartments for employees from abroad for a period of up to one year, server lease agreement and lease agreements for business vehicles for up to 3 years.

Contracts contain options for extension and termination in exceptional cases and do not include variable payment obligations. Extension options have been taken into account for calculating lease liabilites in accordance with IFRS 16.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

| In RSD thousand | Property – rights of use | Vehicles – rights of use | Electronic equipment – rights of use | Total |
|---|---|---|---|---|
| **As at 1st Jan 2019** | - | - | - | - |
| Additions | 263,989 | 9,181 | - | 273,170 |
| Depreciation expense | (27,076) | (5,724) | - | (32,800) |
| **As at 1st Jan 2019** | **236,913** | **3,457** | **-** | **240,370** |
| Additions | 29,765 | 16,126 | 17,023 | 62,914 |
| Depreciation expense | (30,364) | (3,329) | (1,419) | (35,112) |
| **As at 31st Dec 2020** | **236,314** | **16,254** | **15,604** | **268,172** |

Set out below are the carrying amounts of lease and the movements during the period

| In RSD thousand | 2020. | 2019. |
|---|---|---|
| **As at 1st Jan 2020** | **242,228** | **270,364** |
| Additions | 57,260 | 6,307 |
| Accretion of interest | 40,510 | 6,406 |
| Foreign exchange | (15) | (1,643) |
| Payments | (68,908) | (39,206) |
| **As at 31st Dec 2020** | **271,075** | **242,228** |

The maturity analysis of lease liabilities are disclosed in Note 28.03 and liqudity gap analysis.

The following are the amounts recognized in profit or loss

| In RSD thousand | 2020. | 2019. |
|---|---|---|
| Depreciation expense of right-of-use assets | 35,112 | 32,800 |
| Lease interest expense | 2,219 | 6,406 |
| Expense relating to short-term leases | 31,320 | 27,071 |
| **Total expenses designated in P&L** | **68,651** | **66,277** |

## 26. EQUITY

The bank's share capital consists of 100 ordinary shares with nominal value of RSD 18,438,870 per share (2019: 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). The owner of 100% of the Bank's shares as of 31 December 2020 is the Bank of China (Hungary), Close Ltd .

Retained earnings from previous years in amount of RSD 93,298 thousand while the amount of RSD 174,350 thousand represents loss from current period.

## 27. OFF-BALANCE SHEET ITEMS AND POTENTIAL LIABILITIES

### 27.1 Off-balance sheet items

As of 31 December 2020, 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** | **2020** | **2019** |
|---|---|---|
| Issued guarantees and other sureties | 722,991 | 459,070 |
| Other derivatives | 597,372 | 985,732 |
| Other off-balance sheet assets | 2,250 | 2,250 |
| **Total** | **1,322,613** | **1,447,052** |

Off balance sheet items in the amount of RSD 722,991 thousand (2019: RSD 459,070 thousand) increased compared to the previous year as a result of increase in the Bank's activity in issuing foreign currency and RSD guarantees, as well as an increase in activities of currency exchange.

Other derivatives relate to forward contracts of purchase and sale of foreign currency with a pre-defined exchange rate. These sales were realized in the first days of 2020.

### 27.2 Potential liabilities - litigations

As of 31 December, 2020, no court proceedings have been held against the Bank.

## 28. RISK MANAGEMENT POLICIES

### 28.1 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.

### 28.2. Internal Regulations

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

- Credit risk is the possibility of occurrence of adverse effects on financial result and capital of the Bank caused by the borrower's failure to fulfil its obligations to the Bank.

- Residual risk is the likelihood of occurrence of adverse effects on financial result and Bank's capital due to the fact that credit risk mitigation techniques are less efficient than anticipated or their implementation does not have sufficient influence on the reduction of risk to which the Bank is exposed.

- Dilution risk is the possibility of occurrence of adverse effects on the Bank's financial result and capital due to the reduced value of purchased receivables as a result of cash or non-cash liabilities of the former creditor to the borrower.

- Settlement/delivery risk is the possibility of adverse effects on the Bank's financial result and capital arising from unsettled transactions or counterparty's failure to deliver in free transactions on the due delivery date.

- Counterparty credit risk is the possibility of adverse effects on the Bank's financial result and capital arising from counterparty's failure to fulfil his part of the deal in a transaction before final settlement of cash flows of the transaction or settlement of monetary liabilities under that transaction.

- 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.

- Market risk implies the possibility of occurrence of adverse effects on the Bank's financial result and capital due to changes in the value of balance-sheet positions and off-balance sheet items arising from changes in prices in the market. Market risks includes foreign exchange risk, price risk on debt securities, and commodity risk.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.2 Internal Regulations (continued)

- **Interest rate risk** is a risk of possible adverse effects on the financial result and capital of the Bank arising from positions in the banking book due to changes in interest rates.

- **Liquidity risk** is the possibility of occurrence of adverse effects on the financial result and capital of the Bank caused by the Bank's inability to fulfil its due obligations as a result of (i) withdrawal of existing sources of financing and/or impossibility of securing new sources of financing (funding liquidity risk), or (ii) difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk).

- **Operational risk** is the risk of possible adverse effects on financial result and capital of the Bank caused by omissions (unintentional and intentional) in employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events including in particular legal risk.

- **Legal risk** is the risk of adverse effects on the bank's financial result and capital arising from court or out-of-court proceedings relating to the bank's operation (contracts and torts, labour relations, etc.).

- **Strategic risk** is the possibility of adverse effects on the bank's financial result or capital due to absence of adequate policies and strategies, or due to their inadequate implementation, and due to changes in the environment in which the bank operates or failure of the bank to adequately respond to these changes.

- **The Bank's investment risk** includes the risks of its investments in other legal entities and in fixed assets and investment property.

- **Country risk** is a risk relating to the country of origin of the person to which the Bank is exposed, i.e. risks of possible adverse effects on the financial result and capital of the Bank due to the Bank's inability to collect receivables from such person for reasons arising from political, economic or social circumstances in such person's country of origin.

- **The term "compliance risk"** referred to the risk that the Bank may suffer legal sanctions, regulatory penalties, financial losses or reputational losses resulting from failure to abide by compliance requirements.

- **The risk of money laundering and terrorist financing** implies the risk of possible occurrence of negative effects on the financial result, capital or reputation of a Bank if the Bank is used (direct or indirect use of the business relationship with the Bank, transactions, service or product of the Bank) for money laundering and/or terrorist financing

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

1) Compliance: The Bank aims to be fully compliant with all applicable local laws and regulations, as well as BoC Group guidelines.
2) Appropriate balance between risk and return: The Bank aims to achieve appropriate balance of risk and return through active control。Each kind of business shall at least gain benefits that match the risk it bears, and optimize capital allocation.
3) Segregation of duties, avoiding conflict of interest: 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.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.2 Internal Regulations (continued)

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: All employees 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) Fully know your customers and businesses: “know your customers”, “know your businesses”, especially new products and new businesses to ensure risk margin is measurable and risks are acceptable.
7) Consistence and coherence: BOCS 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: Under the risk appetite and risk management strategy, the Bank shall implement differentiated and controllable risk management 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. In all cases where risk strategy and/or any other relevant risk internal rules are not fully clear, substance over the form should prevail, meaning all available information should be considered in final interpretation of a certain internal guideline.

Risk-taking capacity refers to the level of risk that the Bank is willing to accept or maintain, with the aim of maximizing benefits for shareholders, while satisfying relevant stakeholders, and thus defining the most significant set of indicators in the field of risk management. The Bank seeks to maintain a moderate risk-taking capacity and achieve a balance between risk and return, in accordance with the principles of "rationality, stability and prudence".

Risk-taking capacity indicators are defined for all risks to which the Bank is exposed. Indicators of risk-taking capacity are monitored through the levels of exposure to that risk and have defined target values or limit values (limits). Target values are determined on the basis of the bank's business strategy and risk strategy, while internal limits are determined taking into account the regulatory and requirements of the banking group.

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

| Risk | Key risk indikators |
|---|---|
| **1.Capital adequacy** | CET 1ratio, Tier 1 ratio, Capital adequacy ratio, Regulatory capital |
| **2.Credit risk** | |
| 2.1. Credit assets | Non-performing loans in total loan |
| 2.2. Concentration risk | Single client limit, Sum of large exposures, Total exposure within the Group, Sector exposure |
| **3.Market risk** | Total currency exposure, FX risk indicator |
| **4.Interest rate risk in the banking book** | Change in economic value of capital, change in net interest income |
| **5.Operational risk** | The number of operational events with a loss, IT Number of significant fault lasting more than 1h |
| **6.Liquidity risk** | Daily liquidity ratio, liquidity ratio for three consecutive days, average monthly liquidity ratio, Narrow daily liquidity ratio, narrow liquidity ratio for three consecutive days, narrower average monthly liquidity ratio, liquidity coverage ratio |
| **7.Country risk** | Maximum amount of exposure in a country with a non-investment rating |
| **8.Business compliance risk** | Penalties by regulators and other material risks, Losses from lawsuits and litigation |
| **9.Risk of money laundering** | Number of reports of suspicious transactions from the aspect of money laundering |
| **10. Strategic risk** | Minimum percentage of completed tasks in accordance with the business plan. |

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.2 Internal Regulations (continued)

**COVID-19 impact**

During 2020, the COVID-19 pandemic had a major impact on different segments of the economy and different activities, which could potentially affect the collectibility of receivables. In the local market, the Republic of Serbia and the NBS have passed several regulations in order to overcome the problems brought by the pandemic.

Moratorium 1

In the conditions of a pandemic caused by the COVID-19 virus, and in order to preserve the stability of the financial system in the Republic of Serbia due to the possibility of facing difficulties in repaying debtors, the National Bank of Serbia issued a Decision regulating measures and activities COVID-19 virus. The decision was published in the "Official Gazette of RS", number 33/2020 on March 17, 2020 and entered into force on March 18, 2020 and refers to measures of delay in repayment of obligations (moratorium).

As the regulations came into force on March 18, 2020, the bank was obliged to offer debtors a delay in repayment of obligations (moratorium) in the next three days (until March 21), and to publish an offer on delay in repayment of obligations on its website. The first moratorium lasted until the end of June 2020.

Moratorium 2

For the same reasons as the introduction of moratorium 1, a moratorium 2 was introduced, which lasted during August and September 2020.

Moratorium 3

In December (December 14, 2020), new measures were adopted to facilitate the repayment of credit obligations. The difference in this measure compared to the previous 2 moratoriums is that clients apply for these measures voluntarily.
The benefits apply to those who lost their jobs during the pandemic, farmers and entrepreneurs with lower incomes and leasing contracts, as well as to those who are more than a month late in repaying their loan obligations.

These mentioned subvencions could potentially affect the future cash flows and cause modifications of financial resources and thus cause impairment effects.

However, having in mind the specifics of the Bank's operations and portfolio as at 31.12.2020. years, no effects have been identified that would cause a change in cash flows and increase the possibility of significant effects based on modifications.

In addition, the Bank's analysis found that there are no exposures with an increased risk of non-collection due to the situation caused by the COVID-19 virus. The Bank's credit exposure relates entirely to the exposure of the Group members (placed deposits and guarantees), which operate with good financial indicators and whose operations are not endangered in these circumstances, therefore the Bank did not take into account the tax risk based on COVID -19.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.3 Liquidity risk

Liquidity risk is the possibility of occurrence of adverse effects on the financial result and capital of the bank caused by the bank's inability to meet its due obligations as a result of:
▸ Withdrawal of existing sources of funding and/or impossibility to secure new sources of funding (funding liquidity risk), or
▸ Difficulties in converting assets into liquid funds due to market disturbances (market liquidity risk).
Liquidity risk (risk of not being liquid) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. The bank must therefore maintain at all times sufficient liquid funds available to meet its obligations, even in times of stress. It has a shorter-term perspective.

Funding risk is the danger that additional funding can no longer be obtained, or can only be obtained at significantly increased market interest rates. It has a longer-term perspective.

Liquidity management in the Bank is a continuous process, based on the following **general principles**:

- The Bank does not engage in speculative affairs – Money Market deals, deals in the purchase or sale of securities or currencies whose main goal is to make a profit based on the expected trends in their prices.
- The bank concludes the aforementioned contracts only to maintain suitable level of liquidity (its liquidity position), i.e. to reduce its exposure to financial and market risks.
- In order to reduce the liquidity risk, the Bank strives for its policy of independence and seeks finance through the deposit of its clients.
- All operations must be carried out on the basis of appropriate processes and internal controls and must be adequately documented;
- Unnecessary risks are avoided, i.e. bank does not enter into jobs that are outside the defined mission of the Bank.
- Liquidity management is performed in all relevant currencies
- The Bank strive for stability and diversification of the sources of funding where such structure limit the possible concentration of liquidity risk and guarantee a relatively simple and direct liquidity risk management system.

The Bank's daily liquidity ratio during 2020, was always within prescribed regulatory limit (min 1) and at the 31.12.2020 amounts to 5,66 (2019: amounts to 6.07).
Monthly liquidity ratio – LCR –liquidity coverage ratio, during 2020, was always above prescribed regulatory limit of 100%. At the 31.12.2020 amounts to 342,82 (2019: amounts to 327.08).

**Liquidity gap – Remaining maturity gap analysis of financial assets and liabilities**

Beside regulatory prescribed liquidity indicators, the Bank monitors its liquidity by measuring total cash flow of its balance sheet liabilities and receivables and off-balance sheet items.
Analysis of the gap presents a comparison of the total available funds / inflows to meet the total commitments over a given period of time. Liquidity gap is present when in the reporting period, total amount of liabilities exceeds the total amount of assets.

Liquidity that can potentially be generated to cover the liquidity gap is called liquid potential. Periodical reports about cash flow are used in order to identify significant mismatch and for estimation of future liquidity needs, as well as liquidity surplus. Decision related to liquidity management are based on cash flow mismatch - GAP analysis. Projection of future cash flows of balance sheet items is based on the principle of remaining maturity of these items.

The following tables represent analysis of assets and liabilities by remaining maturity taking into account analysis of expected time of realization of assets and liability payments as of 31$^{st}$ December 2020 and 31$^{st}$ December 2019.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.3 Liquidity risk (continued)

Liquidity risk as of 31 December 2020 – **Maturity gap analysis of financial assets and liabilities**

| In thousand of RSD | until 1 month | from 1 to months | from 3 to 6 months | from 6 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|---|
| Cash and assets held with the central bank | 4,672,568 | - | - | - | - | - | 4,672,568 |
| Receivables under derivatives | 234 | - | - | - | - | - | 234 |
| Loans and receivables from banks and other financial organizations | 7,910,411 | - | - | - | - | - | 7,910,411 |
| Other asset | 12,180 | - | - | - | | | 12,180 |
| **TOTAL FINANCIAL ASSETS** | **12,595,393** | **-** | **-** | **-** | **-** | **-** | **12,595,393** |
| Liabilities under derivatives | 1,798 | - | - | - | - | - | 1,798 |
| Deposits and other liabilities due to banks, other financial institutions and the central bank | - | - | - | - | - | - | - |
| Deposits and other liabilities due to customers | 10,865,916 | - | - | - | - | - | 10,865,916 |
| Other liabilities | 60,081 | 7,415 | 11,122 | 22,244 | 147,202 | 86,279 | 334,343 |
| | | | | | | | - |
| **TOTAL FINANCIAL LIABILITIES** | **10,927,795** | **7,415** | **11,122** | **22,244** | **147,202** | **86,279** | **11,202,057** |
| FX derivatives - on the assets side | 574,888 | - | - | - | - | - | 574,888 |
| Irrevocable commitments – on the assets side | 171,561 | 117,580 | - | 296,406 | 139,690 | - | 725,237 |
| FX derivatives – on the liabilities side | 575,142 | - | - | - | - | - | 575,142 |
| Contingent liabilities from guaranties – liability side | 171,561 | 117,580 | - | 296,406 | 139,690 | - | 725,237 |
| **OFF-BALANCE SHEET FINANCIAL ITEMS** | **(254)** | **-** | **-** | **-** | **-** | **-** | **(254)** |
| **Liquidity maturity gap as of 31 December 2020** | **1,667,344** | **(7,415)** | **(11,122)** | **(22,244)** | **(147,202)** | **(86,279)** | **1,393,082** |

## 28.3 Liquidity risk (continued)

Liquidity risk as of 31 December 2019 – **Maturity gap analysis of financial assets and liabilities**

| In thousand of RSD | until 1 month | from 1 to months | from 3 to 6 months | from 6 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|---|
| Cash and assets held with the central bank | 3,440,539 | - | - | - | - | - | 3,440,539 |
| Receivables under derivatives | 544 | - | - | - | - | - | 544 |
| Loans and receivables from banks and other financial organizations | 6,516,791 | - | - | - | - | - | 6,516,791 |
| Other asset | 18,581 | - | - | - | | | 18,581 |
| **TOTAL FINANCIAL ASSETS** | **9,976,455** | **-** | **-** | **-** | **-** | **-** | **9,976,455** |
| Liabilities under derivatives | 986 | - | - | - | - | - | 986 |
| Deposits and other liabilities due to banks, other financial institutions and the central bank | 11,255 | - | - | - | - | - | 11,255 |
| Deposits and other liabilities due to customers | 7,621,457 | - | - | - | - | - | 7,621,457 |
| Other liabilities | 476,915 | 6,356 | 8,503 | 19,643 | 160,333 | 117,666 | 789,498 |
| | | | | | | | - |
| **TOTAL FINANCIAL LIABILITIES** | **8,110,613** | **6,356** | **8,503** | **19,643** | **160,333** | **117,666** | **8,423,196** |
| FX derivatives - on the assets side | 574,888 | - | - | - | - | - | 574,888 |
| Irrevocable commitments – on the assets side | 171,582 | 56,969 | - | - | 232,769 | - | 461,320 |
| FX derivatives – on the liabilities side | 575,142 | - | - | - | - | - | 575,142 |
| Contingent liabilities from guaranties – liability side | 169,332 | 56,969 | - | - | 232,769 | - | 459,070 |
| **OFF-BALANCE SHEET FINANCIAL ITEMS** | **1,996** | **-** | **-** | **-** | **-** | **-** | **1,996** |
| **Liquidity maturity gap as of 31 December 2019** | **1,867,838** | **(6,356)** | **(8,503)** | **(19,643)** | **(160,333)** | **(117,666)** | **1,555,255** |

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 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 considered 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) The competence of the individual in the process of deciding on the Bank's placements is determined in accordance with their qualification, expertise and experience, subject to periodic review.

When deciding on the exposures, the Bank is required to comply with limits on counterparty and to endeavor to avoid excessive concentration of exposure, taking into account the requirements in terms of the structure of financing of the Bank, as well as the requirements of prudent 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;
- due diligence 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.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

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 on risk management, large exposure toward singe client or group of connected clients, is exposure which represent minimum 10% of capital.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

*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.

| **31st Dec 2020** | | | | | | |
|---|---|---|---|---|---|---|
| **Classes of exposures** | **Maximum exposure to credit risk** | **Out of which: Stage 1** | **Exposure without stage** | **Impairment allowance** | **Out of which: Impairment allowance Stage 1** | **Net amount** |
| Cash and balances with Central Bank | 4,672,568 | - | 4,672,568 | - | - | 4,672,568 |
| Receivables under derivatives | 234 | - | 234 | - | - | 234 |
| Loans and receivables from banks and other financial institutions | 7,910,411 | 20 | 7,910,391 | - | - | 7,910,411 |
| Loans and advances to customers | - | - | - | - | - | - |
| Other receivables | 12,180 | - | 12,180 | - | - | 12,180 |
| **Balance as of 31st December** | **12,595,393** | **20** | **12,595,373** | **-** | **-** | **12,595,393** |
| Payment and performance guarantees | 722,987 | 722,987 | - | (191) | (191) | 722,796 |
| Other contingent liabilities | 2,250 | - | 2,250 | - | - | 2,250 |
| **Balance as of 31st December** | **725,237** | **722,987** | **2,250** | **(191)** | **(191)** | **725,046** |
| **TOTAL** | **13,320,630** | **723,007** | **12,597,623** | **(191)** | **(191)** | **13,320,439** |

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

***Maximum credit risk exposure (continued)***

| **31st Dec 2019** | | | | | | |
|---|---|---|---|---|---|---|
| **Classes of exposures** | **Maximum exposure to credit risk** | **Out of which: Stage 1** | **Exposure without stage** | **Impairment allowance** | **Out of which: Impairment allowance Stage 1** | **Net amount** |
| Cash and balances with Central Bank | 3,440,539 | - | 3,440,539 | - | - | 3,440,539 |
| Receivables under derivatives | 544 | 544 | - | - | - | 544 |
| Loans and receivables from banks and other financial institutions | 6,516,791 | 103 | 6,516,688 | - | - | 6,516,791 |
| Loans and advances to customers | - | - | - | - | - | - |
| Other receivables | 18,581 | - | 18,581 | - | - | 18,581 |
| **Balance as of 31st December** | **9,976,455** | **647** | **9,975,808** | **-** | **-** | **9,976,455** |
| Payment and performance guarantees | 461,320 | 459,070 | - | (121) | (121) | 458,949 |
| Other contingent liabilities | - | - | 2,250 | - | - | 2,250 |
| **Balance as of 31st December** | **461,320** | **459,070** | **2,250** | **(121)** | **(121)** | **461,199** |
| **TOTAL** | **10,437,775** | **459,717** | **9,978,058** | **(121)** | **(121)** | **10,437,654** |

## *28.* RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

*Collateral and other credit risk mitigation techniques*

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.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

***Collateral and other credit risk mitigation techniques (continued)***

The following table shows credit risk exposure analysis by individually and collectivly impaired exposures as of 31 December, 2020:

| 31.12.2020 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Collective | | | | Individual | Wthout Stage |
| Classes of exposures | Total | Level 1 | Level 2 | Level 3 | Subtotal collective | Stage 3 | Balance without Stage |
| Cash and balances with Central Bank | 4,672,568 | - | - | - | - | - | 4,672,568 |
| Receivables under derivatives | 234 | - | - | - | - | - | 234 |
| Loans and receivables from banks and other financial institutions | 7,910,411 | 20 | - | - | 20 | - | 7,910,391 |
| Other assets | 12,180 | - | - | - | - | - | 12,180 |
| **TOTAL FINANCIAL ASSETS** | **12,595,393** | **20** | - | - | **20** | - | **12,595,373** |
| Payment and performance guarantees | 722,987 | 722,987 | - | - | 722,987 | - | - |
| Other | 2,250 | - | - | - | - | - | 2,250 |
| **TOTAL OFF-BALANCE SHEET FINANCIAL ITEMS** | **725,237** | **722,987** | - | - | **722,987** | - | **2,250** |
| **Total exposure as of 31st December** | **13,320,630** | **723,007** | - | - | **723,007** | - | **12,597,623** |

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

***Collateral and other credit risk mitigation techniques (continued)***

The following table shows credit risk exposure analysis by individually and collectivly impaired exposures as of 31 December, 2019:

| 31.12.2019 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Collective | | | | Individual | Wthout Stage |
| Classes of exposures | Total | Level 1 | Level 2 | Level 3 | Subtotal collective | Stage 3 | Balance without Stage |
| Cash and balances with Central Bank | 3,440,539 | - | - | - | - | - | 3,440,539 |
| Receivables under derivatives | 544 | 544 | - | - | 544 | - | - |
| Loans and receivables from banks and other financial institutions | 6,516,791 | 103 | - | - | 103 | - | 6,516,688 |
| Other assets | 18,581 | - | - | - | - | - | 18,581 |
| **TOTAL FINANCIAL ASSETS** | **9,976,455** | **647** | **-** | **-** | **647** | **-** | **9,975,808** |
| Payment and performance guarantees | 459,070 | 459,070 | - | - | 459,070 | - | - |
| Other | 2,250 | - | - | - | - | - | 2,250 |
| **TOTAL OFF-BALANCE SHEET FINANCIAL ITEMS** | **461,320** | **459,070** | **-** | **-** | **459,070** | **-** | **2,250** |
| **Total exposure as of 31$^{st}$December** | **10,437,775** | **459,717** | **-** | **-** | **459,070** | **-** | **9,978,058** |

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

**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 2020, Bank categorize its exposure based on financial institution counterguarntees with first class rating, into Stage 1.

The following table shows the change in the gross exposure in 2020:

| | Stage 1 | Stage 2 | Stage 3 | POCI | TOTAL |
|---|---|---|---|---|---|
| **Gross balance as of 1st January 2020** | **459,070** | **-** | **-** | **-** | **459,070** |
| New assets originated or purchased | 423,845 | - | - | - | 423,845 |
| Payments and assets derecognized (excluding write offs) | (159,924) | - | - | - | (159,924) |
| 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 2020** | **722,991** | **-** | **-** | **-** | **722,991** |

The table shows the exposures based on off-balance sheet records, ie. guarantee.

**28. RISK MANAGEMENT POLICIES (continued)**

**28.4 Credit risk (continued)**

The following table shows the change in the gross exposure in 2019:

| | Stage 1 | Stage 2 | Stage 3 | POCI | TOTAL |
|---|---|---|---|---|---|
| **Gross balance as of 1st January 2019** | **10,589,707** | **-** | **-** | **-** | **10,589,707** |
| New assets originated or purchased | 459,070 | - | - | - | 459,070 |
| Payments and assets derecognized (excluding write offs) | (10,589,707) | - | - | - | (10,589,707) |
| 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 2019** | **459,070** | **-** | **-** | **-** | **459,070** |

The table shows the exposures based on deposits and off-balance sheet items.

The following table shows the change in the impairment stages by ECL allowance in 2020:

| | Stage 1 | Stage 2 | Stage 3 | POCI | TOTAL |
|---|---|---|---|---|---|
| **ECL allowance as of 1st January 2020** | **(121)** | **-** | **-** | **-** | **(121)** |
| New assets originated or purchased | (1,416) | - | - | - | (1,416) |
| Payments and assets derecognized (excluding write offs) | 1,346 | - | - | - | 1,346 |
| 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 31st December 2020** | **(191)** | **-** | **-** | **-** | **(191)** |

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.4 Credit risk (continued)

The following table shows the change in the impairment stages by ECL allowance in 2019:

| | Stage 1 | Stage 2 | Stage 3 | POCI | TOTAL |
|---|---|---|---|---|---|
| **ECL allowance as of 1st January 2019** | (64) | - | - | - | (64) |
| New assets originated or purchased | (121) | - | - | - | (121) |
| Payments and assets derecognized (excluding write offs) | 64 | - | - | - | 64 |
| 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 31st December 2019** | **(121)** | **-** | **-** | **-** | **(121)** |

During the 2019 and 2020, Bank did not have collaterals in accordance with NBS Decision on capital adequacy for off balance sheet exposures, although these potential liabilities are secured with counter guarantees issued by the members of banking group to which Bank belongs to.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.5 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, 2020, the Bank's net foreign exchange position is as follows:

| in RSD thousand | EUR | USD | Other currency | RSD | Total |
|---|---|---|---|---|---|
| Cash and balances with Central Bank | 573,791 | - | - | 4,098,777 | 4,672,568 |
| Receivables under derivatives | | | | 234 | 234 |
| Loans and receivables from banks and other financial institutions | 1,418,330 | 5,777,444 | 714,637 | - | 7,910,411 |
| Other assets | 9,438 | - | - | 2,742 | 12,180 |
| **TOTAL FINANCIAL ASSETS** | **2,001,559** | **5,777,444** | **714,637** | **4,101,753** | **12,595,393** |
| Liabilities under derivatives | - | - | - | 1,798 | 1,798 |
| Deposits and other liabilities due to banks, other financial institutions and the Central Bank | - | - | - | - | - |
| Deposits and other liabilities due to customers | 1,170,665 | 6,844,622 | 176,814 | 2,673,815 | 10,865,916 |
| Other liabilities | 272,868 | 15,155 | - | 22,478 | 310,501 |
| **TOTAL FINANCIAL LIABILITIES** | **1,443,533** | **6,859,777** | **176,814** | **2,698,091** | **11,178,215** |
| Off-balance financial instrument – long position | - | 1,104,473 | 27,010 | - | 1,131,483 |
| Off-balance financial instrument – short position | 543,195 | 27,167 | 561,958 | - | 1,132,320 |
| **Net open foreign position as of 31st Dec 2020** | **14,831** | **(5,027)** | **2,875** | **-** | **17,706** |

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.5 Exposure to financial risks (continued)

As of December 31, 2019, the Bank's net foreign exchange position is as follows:

| in RSD thousand | EUR | USD | Other | RSD | Total |
|---|---|---|---|---|---|
| Cash and balances with Central Bank | 470,959 | - | - | 2,969,580 | 3,440,539 |
| Receivables under derivatives | - | - | - | 544 | 544 |
| Loans and receivables from banks and other financial institutions | 685,609 | 5,829,820 | 1,362 | - | 6,516,791 |
| Other assets | 9,117 | - | - | 9,464 | 18,581 |
| **TOTAL FINANCIAL ASSETS** | **1,165,685** | **5,829,820** | **1,362** | **2,979,588** | **9,976,455** |
| Liabilities under derivatives | - | - | - | 986 | 986 |
| Deposits and other liabilities due to banks, other financial institutions and the Central Bank | 176 | 11,079 | - | - | 11,255 |
| Deposits and other liabilities due to customers | 359,960 | 5,897,412 | 21,064 | 1,343,021 | 7,621,457 |
| Other liabilities | - | - | - | 3,525 | 3,525 |
| **TOTAL FINANCIAL LIABILITIES** | **739,138** | **6,162,287** | **81,417** | **1,366,964** | **8,349,806** |
| Off-balance financial instrument – long position | 31,662 | 451,011 | 92,215 | - | 574,888 |
| Off-balance financial instrument – short position | 442,507 | 123,538 | 9,097 | - | 575,142 |
| **Net open foreign position as of 31st Dec 2019** | **15,702** | **(4,994)** | **3,063** | **-** | **18,765** |

As of 31st December 2020 the foreign exchange risk amounts to 1.01% (regulatory prescribed maximum limit is 20% of the regulatory capital). In case of 10% increase of exchange rate, Bank will have positive impact on P&L from change of exchange rates in the amount of RSD 1,771 thousand.

## 28. RISK MANAGEMENT POLICIES (continued)

### 28.6 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, 119/2017, 76/2018, 57/2019 i 88/2019) and the Decision on Capital Adequacy ("Official Gazette of the Republic of Serbia", No. 103/2016, 103/2018 and 88/2019).

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 minimum capital adequacy ratios prescribed for the bank are: the Common Equity Tier 1 capital ratio 6.82%, the Tier 1 capital ratio 9.11% and the total capital ratio 12.14%

The table below shows the state of equity and total risk assets as at December 31$^{st}$:

| In thousands RSD | 2020 | 2019 |
|---|---|---|
| *Share equity* | 1,843,887 | 1,843,887 |
| *Share premium* | - | - |
| *Profit from previous years eligible for inclusion in share capital* | 93,298 | 59,638 |
| *Retained loss from the previous period* | (174,350) | - |
| *Other intangible assets before related deduction of deferred tax liabilities* | (18,950) | (16,341) |
| ***Tier 1 Capital*** | **1,743,885** | **1,887,184** |
| ***Tier 2 Capital*** | **-** | **-** |
| **Regulatory capital (1)** | **1,743,885** | **1,887,184** |
| | | |
| ***Total risk weighted assets (2):*** | **2,225,826** | **2,093,008** |
| ***Capital adequacy (1/2 x 100)*** | **78.35%** | **90.17%** |

## 29. 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 2020, 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 2020 were as follows:

| Business indicators | Prescribed | Realized |
|---|---|---|
| 1. Capital | EUR 10 million | RSD 1.887.184 thousand |
| 2.1 Capital adequacy ratio | 8% | 78.35% |
| 2.2 The Tier 1 capital ratio | 6% | 78.35% |
| 2.3 The Common Equity Tier 1 capital ratio | 4.5% | 78.35% |
| 3. Bank investments | Max 60% | 18.44% |
| 4. Exposure to one person or a group of related parties | 25% | 2.09% |
| 5 Exposure to persons affiliated with the Bank | 25% | 2.09% |
| 6. Sum of big exposures of the Bank | 400% | 2.09% |
| 7. Foreign exchange risk indicator | 20% | 1.01% |

## 30. 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 2020 and 2019 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 | 2020 | 2019 |
|---|---|---|
| **Income and expenses** | | |
| Interest income | 19,285 | 146,301 |
| Interest expenses | (4,682) | (817) |
| Income from fees and commissions | 129,908 | 259,144 |
| Expenses on fees and commissions | (12,908) | (10,573) |
| **Assets and Liabilities** | | |
| Nostro accounts | 5,040,147 | 6,516,358 |
| Deposits at other banks | 2,869,911 | - |

## 30. TRANSACTIONS WITH RELATED PARTIES (continued)

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. Other incomes in 2020 represent result of increased money market activities within the banking group.

Salaries and other proceeds to the members of the Board of Directors, Executive Board and other key management staff of the Bank during 2020 and 2019 are shown in the following table:

| In thousand RSD | 2020 | 2019 |
|---|---|---|
| Gross salaries of key management | 62,591 | 58,555 |
| Fees to members of the Board of Directors and the Auditing Committee | 12,725 | 12,755 |
| **Total** | 75,316 | 71,310 |

## 31. 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.

| Chairman of the Executive Board | Member of the Executive Board |
|---|---|
| Keqin Chen | Slaviša Aleksić |

Belgrade, 22 March 2021

# ANNUAL BUSINESS REPORT
# BANK OF CHINA SRBIJA AD FOR 2020

March 2021

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## 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 2020 (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 163,305 thousand, interest income in the amount of RSD 23,306 thousand, as well as fee and commission income from guarantees in the amount of RSD 118,759 thousand.

Financial position and business results (continued)

The total balance sheet amount as at 31 December 2020 is RSD 12,941,241 thousand (2019: RSD 10,316,296 thousand). During the year, the Bank increased fixed assets in the amount of RSD 69,501 thousand, which consist of rights of use of property and electronic equipment in the amount of RSD 62,914 thousand, and the rest is equipment that was acquired during the year in the amount of RSD 6,587 (2019: RSD 275,874 thousand). The rest of the assets represent giro account at the National Bank of Serbia (RSD 4,672,568 thousand), nostro account (RSD 7,910,411 thousand) and other recevables (RSD 14,042 thousand).

Total capital of the Bank as at 31.12.2020 is RSD 1,762,835 thousand (2019: RSD 1,937,185 thousand) and consists of the share capital in the amount paid by the shareholders on 28.12.2016, as well as the realized profit from previous years in the amount of RSD 93,298 thousand and realized loss at the end of the current business year in the amount of RSD 174,350 thousand.

During the year, Bank had exposures based on exposure on nostro accounts in the amount of RSD 7,910,411 thousand and other receivables in the amount of RSD 14,042 thousand. During 2020, the Bank issued performance guarantees in the amount of RSD 722,990 secured by counter guarantees given by members of the Bank of China Group. The capital adequacy ratio as at 31 December 2020 was 78.35% (2019: 90.17%).

in RSD thousand

| Income statement | 2020 | 2019 |
|---|---|---|
| Net interest income | 23,306 | 145,205 |
| Net fee and commission income | 163,305 | 272,338 |
| Net operating income | 304,173 | 490,638 |
| Operating expenses | (488,328) | (439,006) |
| PROFIT/(LOSS) BEFORE INCOME TAX | (184,155) | 51,632 |
| PROFIT/(LOSS) AFTER TAXES | (174,350) | 33,660 |
| **Balance sheet** | | |
| Cash and balances with Central Bank | 4,672,568 | 3,440,539 |
| Receivables under derivatives | 234 | 544 |
| Loans and receivables from banks and other financial institutions | 7,910,411 | 6,516,791 |
| Intangible assets | 18,950 | 16,341 |
| Property, plant and equipment | 302,625 | 291,724 |
| Current tax assets | 16,131 | 31,776 |
| Deferred tax assets | 6,280 | 0 |
| Other assets | 14,042 | 18,581 |
| TOTAL ASSETS | 12,941,241 | 10,316,296 |
| Liabilities under derivatives | 1,798 | 986 |
| Deposits and other liabilities due to banks, other financial institutions and the Central Bank | - | 11,255 |
| Deposits and other liabilities due to customers | 10,865,916 | 7,621,457 |
| Provisions | 191 | 121 |
| Current tax liabilities | - | 25,659 |
| Deferred tax liabilities | - | 3,525 |
| Other liabilities | 310,501 | 716,108 |
| TOTAL LIABILITIES | 11,178,406 | 8,379,111 |
| TOTAL EQUITY | 1,762,835 | 1,937,185 |
| TOTAL LIABILITIES AND EQUITY | 12,941,241 | 10,316,296 |
| Capital adequacy ratio | 78.35 | 90.17 |
| Average number of employees | 30 | 28 |
| Number of organizational units | 1 | 1 |

Environmental protection investment

In the period from January 1, 2020 until December 31, 2020, 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 2020.

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.

In order to achieve the stable and profitable portfolio of clients, the Bank will strive to diversify its client base (clients from different industries and geographical areas). The Bank`s main focus will be on the following group of customers and projects:

1. Large Serbian companies
2. Chinese enterprises
3. Companies and projects from the following sectors:
    a) Construction, transport and infrastructure
    b) Telecommunications
    c) Manufacturing
    d) Renewable energy and mining
    e) Metalworking, Power Industry, Metal Mines and Metallurgy
4. Ongoing projects in other Balkan countries

The main business goals for 2021 will be:

1. Maintaining relationship with the existing clients
2. Acquiring the new clients
3. Providing full package of service for the clients: (account opening, FX transactions, NetEbank, collecting deposits, providing loans and do the trade finance business)
4. Promoting business and investments for the whole Balkan region
5. Supporting the green economy transition in Serbia

In order to achieve the stable and profitable portfolio of clients, the Bank will strive to diversify its client base (clients from different industries and geographical areas).

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, 2020 to December 31, 2020, the Bank did not buy out its own shares.

## Branches

As of December 31, 2020, the Bank did not have branches.

## Financial instruments applied during the period

In the period from January 1, 2020 until December 31, 2020, 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. The Bank’s primary risk management objective is to optimize its capital allocation and maximize the value for the founder within the acceptable risk profile and with satisfaction to the requirements of the regulatory authorities, its depositors and other interest groups for the Bank’s prudent and stable development.

This process is implemented through developing and updating the procedures, making decisions, setting up limits and targeted values, control and reporting mechanism and constant monitoring.

Internal regulation (continued)

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 the risk level tolerable to the Bank in course of maximizing the interest on behalf of the founder according to the requirements and expectation of regulatory authorities, its depositors and other interested parties. The Bank seeks to maintain a moderate risk appetite and reach a balance between risk and return in the principle of “rational, stable and prudent”.

Risk appetite indicators are measurable and verifiable, and the realization of risk appetite can be controlled or affected by management, and continuously optimized.

Risk appetite indicators are commonly known as Key Risk Indicators (KRI). The Bank’s key risk indicators cover capital indicator, credit risk, market risk, operational risk, liquidity risk, strategic risk, country risk, AML risk and compliance risk

Financial risk exposure

As of December 31, 2020, the Bank had funds on the account at National Bank of Serbia in the amount of RSD 4,672,568 thousand, nostro account exposure in the amount of RSD 7,910,411 thousand. The rest of exposures relates to fee receivables and other accrued income in foreign currency as well as other operating receivables (RSD 14,042 thousand).

**Financial risk exposure (continued)**

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, 2020, the foreign exchange risk level was 1.02%.

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, 2020.

**Capital management**

The capital management relays on the business strategy and plan, quality of the existing portfolio, available financial resources, business environment, regulation, risk appetite and internal capital adequacy assessment process (ICAAP).

Capital management process ensures the Bank manages capital in a manner to secure the ability to continue operating, to ensure that its capital supports current and planned business activities and at the same time to ensure safeness of creditors and depositors, both in normal and in difficult business periods.

In managing capital, the Bank strives to keep level and structure of capital proportionate to its current and prospective business model, expected growth and evolution of the structure and size of the balance sheet.

Capital management should ensure that the capital adequacy regulatory requirements and shareholders view of adequate ROE are simultaneously satisfied.

Factors that influence the capital management of the Bank are:

- Business strategy and business plan,
- Estimated evolution of risk weighted assets,
- Projection of available capital,
- Targeted capital adequacy of the Bank,
- Expected regulatory changes,
- Internal capital adequacy assessment process (ICAAP),
- Risk appetite and results of stress test.

The adequacy of the Bank's capital is actively managed using the regulatory framework, as well as the internally established models and methodologies. Both capital adequacy and the utilization of the Bank's capital are quarterly monitored by the Risk Management Sector of the Bank.

| Chairman of the Executive Board | Member of the Executive board |
| --- | --- |
| Keqin Chen | Slaviša Aleksić |