BANK OF CHINA SRBIJA AD BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR THAT ENDED
ON 31 DECEMBER 2017

Contents

Building a better
working world

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

INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of Bank of China Srbija a.d, Beograd (hereinafter: the Bank), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Bank. Management of the Bank is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the financial statements of the Bank for the year ended 31 December 2017.

Belgrade, 25 April 2018

Olivera Andrijašević for Ernst & Young d.o.o. Beograd	Nikola Ribar Authorised Auditor

BALANCE SHEET

as of 31 December 2017

(in RSD thousand)	**Note**	**2017**	**2016**
ASSETS			
Cash and balances with Central Bank	12	1,694,412	1,843,887
Loans and receivables from banks and other financial institutions	13	22,067	-
Intangible assets	14	33,966	-
Property, plant and equipment	15	98,591	32,389
Other assets		2,486	-
TOTAL ASSETS		**1,851,522**	**1,876,276**
LIABILITIES			
Deposits and other liabilities due to customers	17	171	-
Other liabilities	18	32,017	32,389
TOTAL LIABILITIES		**32,188**	**32,389**
EQUITY			
Share capital	19	1,843,887	1,843,887
Loss	19	(24,553)	-
TOTAL EQUITY		**1,819,334**	**1,843,887**
TOTAL LIABILITIES AND EQUITY		**1,851,522**	**1,876,276**

in Belgrade,

as of 25 April 2018

President of the Executive Board	Member of the Executive Board
Liu Xiaofei	Zhu Lianqi

INCOME STATEMENT

for the period from 01 January to 31 December 2017

(in RSD thousand)

(in RSD thousand)

	Note	2017	2016
Interest income	4	382	-
Net interest income		**382**	**-**
Fee and commission income	5	269,757	-
Fee and commission expense	5	(9)	-
Net fee and commission income		**269,748**	**-**
Net profit on foreign exchange differences and foreign currency clause	6	3,713	-
NET OPERATING INCOME		**273,843**	**-**
Salaries, wages and other personal expenses	7	(153,352)	-
Depreciation costs	8	(22,588)	-
Other expenses	9	(119,765)	-
LOSS BEFORE INCOME TAX		**(21,862)**	**-**
Income tax	10	(2,691)	-
LOSS AFTER TAXES		(24,553)	-
Result for period - LOSS		**(24,553)**	**-**
EARNINGS PER SHARE		-	-
Basic earnings per share (in RSD)	11	(218)	-

in Belgrade,

as of 25 April 2018

President of the Executive Board	Member of the Executive Board
Liu Xiaofei	Zhu Lianqi

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the period from 01 January to 31 December 2017

(in RSD thousand)

(in RSD thousand)	Note	2017	2016
Loss for the period		**(24,553)**	**-**
		-	-
Other comprehensive income		-	-
		-	-
Components of other comprehensive income that may not be reclassified to profit or loss		-	-
Unrealized gains on securities available for sale		-	-
Unrealized losses on securities available for sale		-	-
Income from taxes relating to other income tax for the period		-	-
		-	-
Total (negative) comprehensive income for the period		**(24,553)**	**-**
		-	-
TOTAL NEGATIVE COMPREHENSIVE INCOME		**(24,553)**	**-**

in Belgrade,

as of 25 April 2018

President of the Executive Board	Member of the Executive Board
Liu Xiaofei	Zhu Lianqi

STATEMENT OF CHANGES IN EQUITY

for the period from 01 January to 31 December 2017

(in RSD thousand)	Share capital and other capital	Loss	Total
Balance as at 01 January of the previous year	-	-	-
Transactions with the owners recorded directly on equity - increase	1,843,887	-	1,843,887
Balance as at 31 December of the previous year	1,843,887	-	1,843,887
	-	-	-
Balance as at 01 January of the current year	1,843,887	-	1,843,887
Current year loss	-	(24,553)	(24,553)
Balance as of 31 December of the current year	1,843,887	(24,553)	1,819,334

in Belgrade,

as of 25 April 2018

President of the Executive Board	Member of the Executive Board
Liu Xiaofei	Zhu Lianqi

CASH FLOW STATEMENT

for the period from 01 January to 31 December 2017

(in RSD thousand)

(in RSD thousand)

	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows	**270,139**	**-**
Interest receipts	382	-
Fee receipts	269,757	-
Outflows	**(248,227)**	**-**
Payments to and on behalf of employees	(97,504)	-
Cash for other taxes and contributions	(8,822)	-
Outflow to other operating expenses	(141,901)	-
Net operating cash inflows before changes in placements and deposits	21,912	-
Decrease in placements and increase in deposits and other liabilities	**171**	**-**
Increase in deposits to banks, other financial institutions, central bank and customers	171	-
Increase in loans and decrease in deposits and other liabilities	**(22,067)**	**-**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(22,067)	-
Net cash inflows from operating activities before income tax	16	-
Net cash generated from operating activities	**16**	**3,690,230**
CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows	(157,261)	-
Purchase of intangible and property, plant and equipment	(157,261)	-
Net cash outflow from investing activities	**(157,261)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows	**-**	**1,843,887**
Proceeds from issuance of capital	-	1,843,887
Net cash inflow from financing activities	**-**	**1,843,887**
Net cash outflow from financing activities	**(157,245)**	**-**
Total net received cash	270,310	1,843,887

Total net cash payments	(427,555)	-
NET INCREASE IN CASH	**(157,245)**	**1,843,887**
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	1,843,887	-
GAINS ON EXCHANGE	18,450	-
LOSS ON EXCHANGE	(10,680)	-
CASH AND CASH EQUIVALENTS, END OF YEAR	**1,694,412**	**1,843,887**

in Belgrade,

as of 25 April 2018

President of the Executive Board	Member of the Executive Board
Liu Xiaofei	Zhu Lianqi

1 GENERAL INFORMATION ON THE BANK

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

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

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

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

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

As at 31.12.2017, the Bank had no subsidiaries or branch offices within its composition.

2 BASES FOR PREPARATION OF FINANCIAL STATEMENTS

2.1 Bases for compilation and disclosure of financial statements

The financial statements of the Bank for the year 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) and the regulations of the National Bank of Serbia governing financial reporting of banks.

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

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

The amounts in the financial statements of the Bank are disclosed in thousands of RSD, unless otherwise specified. Dinar represents functional reporting currency in the Republic of Serbia.

The financial statements have been prepared on the basis of going concern principle that implies that the Bank will continue to operate in the foreseeable future.

2. BASES FOR PREPARATION OF FINANCIAL STATEMENTS (continued)

2.2. Changes in accounting policies and disclosure of financial statements

The adopted accounting policies are in accordance with those of the previous financial year, except for the following amended IFRSs that were adopted by the Company as of January 1, 2017:

- **IAS 12 Income Tax (Amendment): Recognition of deferred tax assets for unrealized losses**

The purpose of the amendments is to clarify the calculation of deferred tax assets for unrealized losses, in order to respond to the different implementation of IAS 12 in practice. Specific problems for which there are different solutions in practice relate to cases where a deductible temporary difference arises after the decrease in fair value, then to a recovery of an asset higher than its carrying amount, to a probable future taxable profit, and a combined estimate against a single estimate. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IAS 7 Cash Flow Statement (Amendment): Disclosure**

The purpose of this amendment is to enable users of financial statements to assess changes in the obligations arising from financing activities, including changes arising both from monetary and non-monetary changes. The amendment defines that the only way to meet the disclosure requirement is a tabular presentation of the opening and closing balance sheet balances for liabilities arising from financing activities, including changes in cash flows from financing activities, changes arising from the acquisition of control and the sale of a share or interest, exchange rate effect, change in fair value and other changes. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

The International Accounting Standards Board issued the Annual Improvements to IFRS 2014-2016, which is a set of amendments to existing IFRSs. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IFRS 12 Disclosure of Interest in Other Entities:** Amendments clarify that requirements of IFRS 12 for disclosure, other than those disclosed in summary financial information with an associated entity, participating in another entity or joint venture, apply to associated entities, participating in other entities or joint ventures which are classified as held for sale, intended for distribution or for disposal in accordance with IFRS 5.

- **IFRS 9: Financial Instruments: Classification and Measurement**

The standard is applicable starting from or after January 1, 2018. with permitted prior application. The final version of IFRS 9 Financial Instruments, Recognition and Measurement combines all three aspects of accounting for financial instruments: classification and measurement, impairment and hedging accounting, and supersedes IAS 39. The Standard introduces new requirements regarding the classification and valuation, impairment and accounting of hedges.

The Bank has not adopted local policies, methodologies and guidelines necessary for the application of this standard until the compilation of these balances, but considering the structure of financial instruments, the Management of the Bank estimates that the application of the new standard will not have an impact on the Bank's financial statements. The management of the bank prescribed an action plan that envisages the adoption of local policies, methodologies and guidelines by the end of June 2018.

2 BASES FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

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

- **IFRS 9: Financial Instruments: Classification and Measurement (continued)**

Classification - Financial assets

In accordance with IFRS 9, a financial asset is classified according to one of the following valuation methods: at amortized cost, fair value through other results (FVOCI) or at fair value through profit and loss account (FVTPL). The Standard eliminates existing IAS 39 categories, and those held to maturity, loans, receivables and available-for-sale financial assets. Initially, the financial asset is measured at fair value plus the transaction costs directly related to the asset acquisition transaction, except in the case of financial assets FVTPL in which these costs are recognized through the cost of the income statement.

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

- The purpose of the business model of the asset is to hold the asset in order to collect contracted cash flows
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest on the principal balance on specified dates.

Debt instruments are valued as FVOCI only if it meets both of the following criteria and is indicated as FVTPL:

- The purpose of the business model of the asset is to keep the asset in order to collect contracted cash flows and sales
- and contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest on the principal balance on specified dates.

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

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

ll other financial assets are classified and valued as FVTPL.

Investments in equity instruments that are not held for trading can be irrevocably, at initial recognition, designated as financial assets at fair value through other comprehensive income without any subsequent reclassification of gains and losses in the income statement.

Impairment - Financial assets and contractual assets

IFRS 9 introduces a new impairment model based on expected losses and requires timely recording of expected credit losses. The bank is required to record impairment for expected losses for all loans and other debt instruments not carried at fair value through profit and loss, together with assumed lending obligations and financial guarantees.

Impairment will be determined on the basis of expected credit losses associated with the probability of non-recovery within the next twelve months, except when there has been a significant increase in the credit risk in relation to the day of recognition, in which case the impairment will be determined on the basis of the probability of non-recoverability over the life of the asset.

2 BASES FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

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

- **IFRS 9: Financial Instruments: Classification and Measurement (continued)**

Classification - Financial liabilities

In terms of financial liabilities, the Standard has retained the largest number of IAS 39 requests. The main change is reflected in the fact that in cases when financial liabilities are measured at fair value, a part of the change in fair value arising from its own credit risk is recorded in a statement of the total other financial result, and not in the income statement, unless it gives rise to an accounting disagreement. The bank has yet to assess the full effect of IFRS 9.

- **IFRS 15 Revenue from a contract with customers**

The standard is applicable starting from or after January 1, 2018. IFRS 15 establishes a five-step model to be applied to contract revenue with customers (with a limited number of exceptions), regardless of the type of revenue or industry. Standard requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets, which is not a consequence of the Bank's usual activities (e.g. sale of fixed tangible or intangible assets). The standard requires detailed disclosures, including the classification of total revenues, information on the performance obligations of the contract, changes in the status of assets and liabilities under the contracts between periods, and key estimates. It is not expected that the requirements of this standard will have a significant impact on the Bank's financial statements.

- **IFRS 15 Revenue from Contract with Customers (clarifications)**

The clarifications of the standards will apply starting from or after January 1, 2018, with the permitted prior application. The objective is to clarify the intention of the International Accounting Standards Committee to define the requirements of IFRS 15 Revenue from the contract with customers, especially in the part relating to the accounting coverage of identified performance commitments, clarifying the principle of "individual identification", the principal-agent problem whether the Bank is a principal or an agent), as well as the application of control access and licensing, providing additional guidance for the accounting treatment of intellectual property and copyrights. Clarifications also provide additional practical advice to the Bank that will apply IFRS 15 completely retrospectively, or which will choose the application of a modified retrospective approach. It is not expected that the requirements of this standard will have a significant impact on the Bank's financial statements.

- **IFRS 16 Leasing**

The standard is applicable starting from or after January 1, 2019. IFRS 16 defines the initial recognition, measurement and disclosure of leases for both parties to the contract, i.e. for the buyer (the "borrower") and for the supplier ("the lender"). A new standard requires the borrower to recognize most of the loans in their financial statements. Lenders will have one accounting model for all types of leasing, with some exceptions. The lender's accounting remains essentially unchanged.

- **IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associated Entities: Selling Assets between an Investor and a Subsidiary (Amendment)**

Amendments indicate a known disagreement between the requirements in IFRS 10 and those in IAS 28 relating to the sale or entry of assets between the investor and its subsidiaries and joint ventures. The result of the amendment is that the total loss or gain is recognized when the transaction affects the business, whether it is a subsidiary or not.

2 BASES FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

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

- **IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associated Entities: Selling Assets between an Investor and a Subsidiary (Amendment) (continued)**

A partial gain or loss is recognized when a transaction is tangible to assets that are not essential for the conduct of a business, even when these assets are part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard pending the outcome of the survey on the method of participation. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IFRS 2: Classification and Evaluation of Share Payments (Amendment and Amendment)**

Amendments to the standards are applicable for a period beginning on or after 1 January 2018, with the possibility of early application. Amendments to the standards relate to the requirements for the accounting presentation of the effects of the fulfillment and non-fulfillment of the conditions for acquiring in the valuation of transactions in cash-based transactions, in the payment transactions of shares with net settlement characteristics when calculating the tax-deductible tax liability and in changing the terms and conditions of payment for shares changing the classification of the transaction from cash-based payment transactions for equity-based equity. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

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

Amendments to the standards are applicable for a period beginning on or after 1 January 2018, with the possibility of early application. Amendments to Standards indicate when an entity needs to transfer a property transfer, including assets in preparation or development in, or from investment property. Amendments state that a change in use occurs when the asset fills up, or ceases to fulfill, the definition of an investment property, and there is evidence of a change in its use. Changing the intention of the management regarding the way of using the property does not provide evidence of changing its use. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IFRS 9: Negative Compensation Subscription Function (Amendments)**

Amendments to the standards are applicable for a period beginning on or after 1 January 2019, with the possibility of early application. Amendments allow for financial assets with a subscription function that allows or require a contracting party in the contract or pay or receive reasonable compensation for the earlier termination of the contract (so that from the perspective of the owner of the property may be "negative remuneration"), to be valued by the amortized cost or at fair value through other results. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

2 BASES FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

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

- **IAS 28: Long-term investments in associates and joint ventures (amendments)**

Amendments to the standards are applicable for a period beginning on or after 1 January 2019, with the possibility of early application. Amendments related to measurement, specifically requests for impairment, long-term investments in associates and joint ventures that essentially constitute a part of the "net investment" in an associate or joint venture, should be regulated by IFRS 9, IAS 28 or a combination of both. Amendments explain that the Bank should apply IFRS 9 Financial Instruments, before applying IAS 28 to long-term investments for which the capitalization method is not applied. In the application of IFRS 9, the entity does not take into account any adjustments to the carrying amount of long-term investments arising from the application of IAS 28. It is not expected that the amendments to this Standard will have an impact on the Bank's financial statements.

- **IFRIC Interpretation 22: Foreign Currency Transactions and Advance Review**

The interpretation is applicable for a period beginning on or after 1 January 2018, with the possibility of early application. Data interpretation interprets accounting for transactions involving advance payment or collection in foreign currency. An interpretation involves transactions in a foreign currency in a situation where an entity recognizes non-monetary assets or liabilities arising from advance payment or payment, before the entity recognizes the relevant asset, expense or income. The interpretation states that the date of the transaction, for the purpose of determining the appropriate exchange rate, is the date of the initial recognition of a non-monetary pre-paid asset or a liability for deferred income. If there are multiple advance payment or payment transactions, in these situations the entity must determine the transaction date for each advance payment or payment transaction. It is not expected that the amendments to this Standard will have an impact on the Bank's financial statements. The Interpretation is applicable for a period beginning on or after 1 January 2018 with the possibility of early application. Data interpretation interprets accounting for transactions involving advance payment or collection in foreign currency. An interpretation involves transactions in a foreign currency in a situation where an entity recognizes non-monetary assets or liabilities arising from advance payment or payment, before the entity recognizes the relevant asset, expense or income. The interpretation states that the date of the transaction, for the purpose of determining the appropriate exchange rate, is the date of the initial recognition of a non-monetary pre-paid asset or a liability for deferred income. If there are multiple advance payment or payment transactions, in these situations the entity must determine the transaction date for each advance payment or payment transaction. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

The International Accounting Standards Board issued the **Cycle of Annual Improvements to IFRS 2014-2016**, which is a set of amendments to existing IFRSs. Amendments to Standards are Applicable for Periods Beginning From or After 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associated Entities. The possibility of earlier application is permitted for IAS 28 Investments in Associated Entities. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IFRS 1 First-time Adoption of International Financial Reporting Standards:** The enhancement deletes short-term exemptions in connection with disclosures about financial instruments, employee benefits, and investment entities, applicable when first-time standards apply.
- **IAS 28 Investments in Associated Entities:** Amendments clarify that the application of fair value through an investment income statement to an associate entity by an investment capital organization or another qualified entity is available for each investment in associates on an individual investment basis after an initial recognition.

2 BASES FOR PREPARATION AND DISCLOSURES IN FINANCIAL STATEMENTS (continued)

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

- **IFRIC Interpretation 23: Uncertainty regarding the treatment of income tax**

The interpretation shall enter into force for a period beginning on or after 1 January 2019, with the possibility of early application. Interpretation refers to the accounting treatment of income tax, in circumstances where tax treatment involves uncertainty affecting the application of IAS 12. Interpretation provides guidance for the consideration of uncertain tax treatment (individually or in combination), potential investigation by the tax authorities, and appropriate methods for the conditions of insecurity and accounting inclusion due to changing circumstances and facts.

The International Accounting Standards Board issued the **Cycle of Annual Improvements to IFRS 2015 - 2017**, which is a set of amendments to IFRSs. The amendments are applicable for the annual period beginning on or after 1 January 2019. It is not expected that changes to this standard will have an impact on the Bank's financial statements.

- **IFRS 3 Business Combinations and IFRS 11 Joint Investments and Arrangements:** Amendments to IFRS 3 clarify that when an entity acquires control over a business that represents a joint venture, the interest in that business is re-measured. On the other hand, amendments to IFRS 11 explain that when an entity acquires joint control over a joint venture transaction, no reassessment of the entire pre-acquired interest in the arrangement is made.

- **IAS 12 Income Tax:** Amendments to Standards clarify that the effects of payments on financial instruments classified as equity, on income tax, should be recognized in accordance with transactions or events that led to the creation of distributable profit.

- **IAS 23 Borrowing Costs**: Amendments to Standards, clarify paragraph 14 of the Standard, when the asset is ready for its intended use or sale, and the borrowing costs that are directly related to the asset remain unpaid - should be included in the entity's financial obligations.

2.3 Comparative statements

The Bank has corrected an error in comparative information for 31 December 2016. The error relates to investments in progress which were delivered to the Bank in 2016 but invoiced by Parent bank in 2017. Adjustments on the comparative information are presented in the table below.

Line in financial statements	**Before correction**	**Correction**	**After correction**
Property, plant and equipment	-	32,389	32,389
Total assets:	**-**	**32,389**	**32,389**
Deferred liabilities for other accrued expenses	-	32,389	32,389
Total liabilities:	**-**	**32,389**	**32,389**

3 ACCOUNTING POLICIES

The basic accounting policies applied during the compilation of the financial statements for 2017 are presented below.

3.1 Interest Income and Expenses

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

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

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

3.2 Income and Expenses from Fees and Commissions

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

3.3 Conversion of foreign means of payment

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

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

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

Currency gains and losses in non-monetary financial assets and liabilities, such as equity securities measured at fair value, the effects of which are reflected in the income statement, are recognized in the income statement as part of the loss or gain on the fair value. Currency gains and losses on non-monetary financial assets, such as equity securities classified as available-for-sale financial assets, 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.

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 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market and which the Bank does not intend to sell immediately or in the near future. They arise when the Bank directly provides cash or provides services to the debtor without the intention to trade with the receivables. Loans and receivables consist of investments made to clients and granted to banks.

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

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

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

Impairment losses based on loans and receivables, as well as of other financial assets, are recorded in the income statement.

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

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

3.9 Intangible Assets, property, plant and equipment

a) 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.

Licenses and other intangible assets 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%

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

b) Fixed Assets

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

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

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

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

Fixed assets	
Computer equipment	33%
Equipment	14.5%
Vehicles	20%

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

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

3.10 Impairment of Non-Financial Assets

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

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

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

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

3.11 Additional Information for the items shown in the Balance Sheet

a) Deposits of banks and clients and loans

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

b) Operating Leasing

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

At the time of the payment of a business lease, during the lease period, the expense of the period is recognized in the income statement.

c) Taxes and Contributions for Mandatory Social Insurance

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

d) Short-term paid leaves

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

e) Provisions, contingent liabilities and assets

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

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

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

3.12 Equity

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

3.13 Financial instruments off-setting

Financial assets and financial liabilities are off-set and their difference is recognized in the balance sheet if, and only if, there is a right stipulated by the law to carry out the off-set of the recognized amounts and there is an intention to make payment on a net basis, or to simultaneously sell the asset and settle the liability.

4 INTEREST INCOME AND EXPENSE

In RSD thousand

Interest income	2017	2016
National bank of Serbia	382	
Total	**382**	**0**
Total net income	**382**	**0**

Interest income on loans to the National Bank of Serbia in the amount of RSD 382 thousand relates to overnight placements.

5 FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand	2017	2016
Income from bank charges		
Agent fee	269,757	0
Total income	**269,757**	**0**
Expense from bank charges		
Domestic payment operations	(9)	0
Total expenses:	**(9)**	**0**
Net fee and commission income	**269,748**	**0**

Major income was generated from agent fees from loans to the clients approved by Bank of China Limited Hungarian Branch, branch office in Hungary, according to which Bank of China Serbia a.d. Belgrade acted as an agent and amounted to RSD 269,757 thousand (2016: RSD 0 thousand).

6 NET FOREIGN EXCHANGE GAINS

In RSD thousand	2017	2016
Foreign exchange gains - foreign currency		
realized	18,450	0
unrealized	8,585,232	0
	8,603,682	**0**
Foreign exchange losses - foreign currency	-	
realized	(10,680)	0
unrealized	(8,589,289)	0
	(8,599,969)	**0**

Net income from foreign exchange gains and losses - foreign currency		
net income from realized foreign currency	7,770	0
net loss from realized foreign currency	(4,057)	0
	3,713	**0**
Total	**3,713**	**0**

7 SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

In RSD thousand	2017	2016
Cost of net salaries	(89,464)	0
Allowance costs	(7,266)	0
Taxes	(12,921)	0
Contributions	(18,312)	0
Other personal expenses	(25,390)	0
Total	**(153,352)**	**0**

Other personal expenses in the amount of RSD 25,390 thousand (2016: RSD 0) mainly relate to the provision for bonus for 2017 in gross amount.

8 DEPRECIATION/AMORTISATION EXPENSE

In RSD thousand	2017	2016
Depreciation of fixed assets	1,064	0
Amortization of intangible assets	21,524	0
Total	**22,588**	**0**

9 OTHER EXPENSES

In RSD thousand	2017	2016
Office materials, small inventory costs	1,584	0
Rental costs	2,744	0
Fuel expenses	456	0
Advertising and marketing costs	7,345	0

Other labour services fee	5,791	0
Security device expense	1,159	0
Mobile and fixed phone bills	1,659	0
Rent for office building – legal entity landloard	38,620	0
Other real estate rent – individual landloard	12,707	0
Property management fee	3,049	0
Vehicle rent	5,436	0
Network special line fee	5,062	0
Transfer expenditure to overseas branches – BOC core software	906	0
Business travel expenses	10,324	0
Hospitality and marketing meeting expense	7,753	0
Other information consulting	4,543	0
Other operating expenses	2,311	0
Membership fees	1,571	0
Deposit insurance premiums at the Deposit Insurance Agency	3,720	0
Unoperating expenses	1,424	0
Taxes, fees and charges to the regulatory authorities	1,541	0
Other operating expenses	60	0
Total	**119,765**	**0**

Rental costs in the amount of RSD 38,620 thousand relate to the office premises in the Boulevard Zoran Đinđić 2A in which the Bank’s Head office is situated.

10 INCOME TAX

In RSD thousand	2017	2016
Current tax	(2,691)	0
Total	**(2,691)**	**0**

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	2017	2016
Loss before tax	(21,862)	0
Tax rate	15%	15%
Calculated income tax	(3,279)	0
Tax effect of non-deductible expenses	5,970	0
Total	**2,691**	**0**

10.1 Calculation of deferred tax income / expense

In RSD thousand	2017	2016
Tax effect of temporary differences		
Tax effect of tax assets recognized in accrued severance pay from the current year	3,527	-
Tax effect of temporary differences concerning PPE and intangible assets	(1,869)	-
Deferred tax income /(expense)	**1,658**	**0**
Net deferred tax income	**1,658**	**0**

In 2017 the Bank had effect of tax assets from severance pay and from differences concerning PPE and intangible assets. The total effect amounted RSD 1,658 thousand. Due to the fact that the Bank made a loss of RSD 24,553 thousand and that 2017 is a first year of doing business in Serbia, we did not recognize any deferred assets at the end of the year.

11 Earnings per share

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

In RSD thousand	2017	2016
Loss attributable to equity holders of the Company	(21,862)	0
Weighted average number of ordinary shares in issue	100	0
Basic earnings per share (expressed in RSD per share)	**(218)**	**0**

12 CASH AND DEPOSITS HELD WITH THE CENTRAL BANK

In RSD thousand	2017	2016
Current account at National Bank of Serbia	1,694,412	1.843.887
Total cash and deposits held with NBS	**1,694,412**	**1.843.887**

13 LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANISATIONS

In RSD thousand	Moody's	2017	2016
FX current accounts with foreign banks			
Bank of China Limited, Hungary Branch	A1	19,817	0
Special purpose deposits – Komercijalna Bank	**unrated**	2,250	0
Total		**22,067**	**0**

Bank of China Serbia a.d. foreign currency current accounts relates to the nostro account held with foreign banks in the amount of RSD 19,817 thousand.
Special purpose deposit at Komercijalna bank relates to the cash deposit placed for the purpose of collateral for the acquired business card.

14 INTANGIBLE ASSETS

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

In RSD thousand	License and software	Total
Cost		
As at 31.12.2016.	**-**	**-**
Additions	35,030	35,030
As at 31.12.2017.	**35,030**	**35,030**
Impairment provisions		
As at 31.12.2016.	**-**	**-**
Depreciation	(1,064)	(1,064)
As at 31.12.2017.	**(1,064)**	**(1,064)**
Net book value as at		
31 December 2017	**33,966**	**33,966**
31 December 2016	**-**	**-**

15 PROPERTY, PLANT AND EQUIPMENT

In RSD thousand	Oprema i ostala osnovna sredstva	Osnovna sredstva u pripremi	Ulaganja u tudja osnovna sredstva	Total
C o s t				
As at 01.01.2016.	-	-	-	-
Additions	-	32,389	-	32,389
As at 31.12.2016.	**-**	**32,389**	**-**	**32,389**
Additions	57,632	-	30,094	87,726
Transfer from PPE under construction to PPE	3,686	(32,389)	28,703	-
As at 31.12.2017.	**61,318**	**-**	**58,797**	**120,115**
I m p a i r m e n t p r o v i s i o n s				
As at 01.01.2016.	-	-	-	-
As at 31.12.2016.	**-**	**-**	**-**	**-**
Depreciation	(10,426)	-	(11,098)	(21,524)
As at 31.12.2017.	**(10,426)**	**-**	**(11,098)**	**(21,524)**
N e t b o o k v a l u e a s a t				
31 December 2017	**50,892**	**-**	**47,699**	**98,591**
31 December 2016	**-**	**32,389**	**-**	**32,389**

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

With its establishment the Bank started the purchase of fixed assets and continued this process in 2017. 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.

16 OTHER ASSETS

In RSD thousand	2017	2016
Other receivables for deposits to lessors	2,116	0
Accruals - rental fee	370	0
Total	**2,486**	**0**

Receivables from lessors relate to receivables from individuals in the amount of RSD 2,116 thousand.

17 DEPOZITI I OSTALE OBAVEZE PREMA KOMITENTIMA

As of December 31, 2017, the Bank had liabilities for transaction deposit in the total amount of RSD 171 thousand. The sectoral structure of these deposits relates entirely to corporate.

18 OTHER LIABILITIES

In RSD thousand	**2017**	**2016**
Liabilities towards employees	23,513	0
Accrued other expenditures in dinars	5,813	32,389
Tax	2.691	
Total	**32.017**	**32,389**

Other liabilities to employees consist of the reserved amount of the bonus for 2017 in the gross amount of RSD 23,513 thousand.

Accrued other expenditures in RSD in the amount of RSD 5,813 thousand (2016: RSD 32,389 thousand) relate to accrued unencumbered expenditures from December 2017. The amount of RSD 32,389 from 2016 refers to the accrued liabilities to suppliers for fixed assets, the reconstruction of the interior of the leased object, which incurred in December 2016 and are recorded on the fixed assets under construction (Note No. 15). During 2017, these fixed assets were activated, and the accrued obligation was paid.

19 CAPITAL

The bank's share capital consists of 100 ordinary shares with nominal value of RSD 18,438,870 per share. 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 28 December, 2016 in the amount of RSD 1,843,887 thousand (EUR 15,000 thousand). Pursuant to the Decision of the Shareholders Assembly of 4 September, 2017, the nominal value of shares was reduced. Capital decrease was due to the adjustment of the book value of the capital because the Decision on the capital entry from 14 October, 2016, and the capital was paid on 8 December, 2016.

The owner of 100% of the Bank's shares as of 31 December, 2016 is the Bank of China (Hungary), Close Ltd.

20 OFF-BALANCE SHEET ITEMS

As of 31 December 2017, the Bank did not have any obligations assumed on the basis of guarantees nor other assumed and contingent liabilities.

20.1 LITIGATIONS

As of 31 December, 2017, no court proceedings have been held against the Bank.

21 RISK MANAGEMENT POLICIES

21.1 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.

21.2 Internal Regulations

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

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

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

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

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

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

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

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

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

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

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

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

Type of Risk	**Key Risk Indicators**
1. Credit Risk	
1.1. Credit risk	Coefficient of suspicious loans, provisions coefficient, loan price, structure and changes in credit rating of clients
1.2. Loan concentration risk	Risk concentration with one group of clients, risk concentration with one client, risk concentration for 10 biggest clients
2. Market risk	
2.1. Market risk	Risk value (VaR) of the market risk in the trading book, stress-tests, allocation of capital for market risk (standardized approach)
2.2. Interest risk in the bank books	Economic value volatility (EV), net interest income (NII)
3. Operating risk	Employee fluctuation coefficient, number of significant system

	failures, applicative system availability
4. Country risk	Country credit rating, country limitations
5. Strategic risk	The Bank should strengthen monitoring and management of strategic projects during the implementation process to ensure the completion of projects within the planned deadlines
6. Liquidity risk	Liquidity ratio, LCR
7. Reputational risk	Avoid continuous negative reports in the media and numerous negative observations of the public; reduce the likelihood that the regulatory authorities make criticisms to the Bank, or ask for a correction of the default and the impact that arises from there.

21.3 Exposure to financial risks

As at December 31, 2017, the Bank had the funds only in the account with the National Bank of Serbia in the amount of RSD 1.694.412 thousand and the exposure as per nostro account of RSD 19.817 thousand and a special-purpose deposit of RSD 2.250 thousand. Also, the Bank did not have significant liabilities as at December 31, 2017.

Due to the aforementioned, the bank is not significantly exposed to financial risks as at December 31, 2017.

21.4 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%, and to adjust the volume and structure of their operations with the indicators of business prescribed by the Decision on risk management ("Official Gazette of the Republic of Serbia", No. 45/2011, 94/2011, 119/2012 and 123/2012, 23/2013, 43/2013, 92/2013, 33/2017, 61/2017, 103/2016 and 119/2017) and the Decision on Capital Adequacy ("Official Gazette of the Republic of Serbia", No. 106/2016).

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

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

The table below shows the state of equity and total risk assets as at December 31, 2017:

In thousands RSD	**2017**	**2016**
Share equity	1,843,887	1,843,887
Loss of current period	(21,862)	0
Other intangible assets before related deduction of deferred tax liabilities	(33,966)	0
Regulatory capital (1)	**1,788,059**	**1,843,887**
Total risk weighted assets (2):	**22,067**	**0**
Capital adequacy (1/2 x 100)	**8102.86%**	**100%**[1]

22 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 2017, 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 2017 were as follows:

Business indicators	**Prescribed**	**Realized**
1. Capital	EUR 10 million	RSD 1,841,243 thousand
2. Capital adequacy	8%	8,102.86%
3. Bank investments	Max 60%	7.93%
4. Exposure to one person or a group of related parties	25%	0%
5 Exposure to persons affiliated with the Bank	25%	1.11%
6. Sum of big exposures of the Bank	400%	0%
7. Foreign exchange risk indicator	20%	1.10%

[1] Since the amount of the risky balance sheet and off-balance sheet assets is equal to zero, in order to avoid the error of division with zero, the capital adequacy is expressed as 100%.

23 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 2017 and 2016 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	**2017**	**2016**
Prepayments for other expenditures in RSD	0	32,389
Income from fees for agent services	269,757	0

Prepayments for liabilities towards the Bank of China Limited Hungary Branch are described in detail in the Note no.15 and no.18. Income from agent services also from the parent entity BOC Hungary Branch is described in the Note no.5.
Salaries and other proceeds to the members of the Board of Directors, Executive Board and other key management staff of the Bank during 2017 and 2016 are shown in the following table:

In thousand RSD	**2017**	**2016**
Gross salaries of key management	40,745	0
Fees to members of the Board of Directors and the Supervisory Board	11,496	0
Total	**52,241**	**0**

24 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.

Belgrade, 25 April 2018

Chairman of the Executive Board	Member of the Executive Board
Liu Xiaofei	Zhu Lianqi