BANK OF CHINA SRBIJA A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023
AND INDEPENDENT AUDITOR'S REPORT

CONTENT

Independent Auditor's Report

To the Shareholder of Bank of China Srbija a.d. Beograd

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of China Srbija a.d. Beograd (the "Bank") as at 31 December 2023, and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the income statement for the year ended 31 December 2023;
- the statement of other comprehensive income for the year ended 31 December 2023;
- the balance sheet as at 31 December 2023;
- the statement of changes in equity for the year ended 31 December 2023;
- the statement of cash flows for the year ended 31 December 2023; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Law on Auditing in the Republic of Serbia. Our responsibilities under this law are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by the Chamber of Auditors in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code as adopted by the Chamber of Auditors in the Republic of Serbia.

Reporting on the other information including the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

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 identified above 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.

With respect to the Annual Report we also performed procedures required by the Law on Accounting in the Republic of Serbia. Those procedures include considering whether the Annual Report includes the disclosures required by the Law on Accounting in the Republic of Serbia.

Based on the work undertaken in the course of our audit, in our opinion:

- the Annual Report has been prepared in accordance with the requirements of the Law on Accounting in the Republic of Serbia; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Annual Report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance 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.

Those charged with governance are 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 the Law on Auditing in the 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.

As part of an audit in accordance with the Law on Auditing in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism 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 those charged with governance 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.

Refer to original signed
Serbian version

Sasa Todorovic
Licensed Auditor
PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 28 March 2024

INCOME STATEMENT
for the period from 01 January to 31 December 2023

(in RSD thousand)

	Note	2023	2022
Interest income	4	933,281	367,502
Interest expense	4	(33,572)	(25,015)
Net interest income		**899,709**	**342,487**
Fee and commission income	5	1,169,581	930,504
Fee and commission expense	5	(12,232)	(9,646)
Net fee and commission income		**1,157,349**	**920,858**
Net losses from change in fair value of financial instruments		-	-
Net profit on foreign exchange differences and foreign currency clause	6	(9,234)	4,937
Impairment losses from financial assets and credit risk off-balance sheet items	7	(19,444)	(31,773)
NET OPERATING INCOME		**2,028,380**	**1,236,509**
Salaries, wages and other personal expenses	8	(290,496)	(317,530)
Depreciation costs	9	(58,200)	(65,015)
Other income		-	-
Other expenses	10	(139,853)	(107,979)
PROFIT BEFORE INCOME TAX		**1,539,831**	**745,985**
Income tax	11	(231,746)	(85,790)
Deferred tax gain	11.1	-	-
Deferred tax loss	11.1	(1,578)	(1,142)
PROFIT (LOSS) AFTER TAXES		**1,306,508**	**659,053**
EARNINGS PER SHARE			
Basic earnings per share (in RSD)	12	**13,065**	**6,591**

Belgrade, 23 March 2023

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

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STATEMENT OF OTHER COMPREHENSIVE INCOME
for the period from 01 January to 31 December 2023

(in RSD thousand)	Note	2023	2022
Profit/(Loss) for the period		1,306,508	659,053
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		1,306,508	659,053

Belgrade, 23 March 2023

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

BALANCE SHEET
as of 31 December 2023

(in RSD thousand)

	Note	2023	2022
ASSETS			
Cash and assets held with the central bank	13	16,929,653	21,874,252
Receivables under derivatives		-	-
Loans and receivables from banks and other financial organizations	14	15,860,893	31,420,167
Loans and receivables from customers	15	10,779	604,523
Intangible investments	16	13,692	8,577
Property, plant and equipment	17	203,066	197,380
Current tax assets	18	143,327	-
Deferred tax assets	12.2	4,648	6,226
Other assets	19	14,808	24,046
TOTAL ASSETS		**33,180,866**	**54,135,171**
LIABILITIES			
Liabilities under derivatives		-	-
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	20	2	3,405,526
Deposits and other liabilities due to customers	21	27,002,061	46,860,982
Provisions	22	51,949	31,834
Current tax liabilities	18	296,327	64,582
Deferred tax liabilities	12.2	-	-
Other liabilities	23 24	2,019,886	1,268,114
TOTAL LIABILITIES		**29,370,225**	**51,631,038**
EQUITY			
Share capital	25	1,843,887	1,843,887
Gain (Loss)	25	1,306,508	659,053
Gain from previous year	25	660,246	1,193
TOTAL EQUITY		**3,810,641**	**2,504,133**
TOTAL LIABILITIES AND EQUITY		**33,180,866**	**54,135,171**

Belgrade, 23 March 2023

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Keqin Chen	Slaviša Aleksić

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STATEMENT OF CHANGES IN EQUITY
for the period from 01 January to 31 December 2023

(in RSD thousand)	Share capital and other capital	Profit	Loss	Total
Balance as at 01 January of the previous year	**1,843,887**	**82,245**	**(81,052)**	**1,845,080**
Current year profit	-	659,053	-	659,053
Coverage of losses from previous periods	-	(81,052)	81,052	-
Balance as at 31 December of the previous year	**1,843,887**	**660,246**	**-**	**2,504,133**
Balance as at 01 January of the current year	**1,843,887**	**660,246**	**-**	**2,504,133**
Current year profit Covering loss from prior years	-	1,306,508	-	**1,306,508**
Balance as of 31 December of the current year	**1,843,887**	**1,966,754**	**-**	**3,810,641**

Belgrade, 23 March 2023

Chairman of the Executive Board

Keqin Chen

Member of the Executive Board

Slaviša Aleksić

CASH FLOW STATEMENT

for the period from 01 January to 31 December 2023

(in RSD thousand)	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows	**2,121,875**	**910,574**
Interest receipts	937,131	363,502
Fee receipts	1,184,744	547,072
Outflows	**(485,329)**	**(483,269)**
Interest payments	(35,097)	(21,478)
Fee payments	(25,743)	(43,164)
Payments to and on behalf of employees	(202,566)	(209,780)
Cash for other taxes and contributions	(92,356)	(88,020)
Outflow to other operating expenses	(129,567)	(120,827)
Net operating cash inflows before changes in placements and deposits	1,636,546	427,305
Decrease in placements and increase in deposits and other liabilities	**23,692,442**	**31,738,991**
Decrease in loans and receivables due from banks, other financial institutions, central bank and customers	18,907,618	981,066
Increase in deposits to banks, other financial institutions, central bank and customers	4,764,415	30,718,626
Increase in other financial liabilities	20,409	39,299
Increase in loans and decrease in deposits and other liabilities	**(30,049,412)**	**(19,142,273)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(2,762,129)	(18,175,937)
Decrease in deposits to banks, other financial institutions, central bank and customers	(27,258,067)	(935,336)
Decrease in other financial liabilities	(29,216)	(31,000)
Net cash inflows from operating activities before income tax	**(4,720,424)**	**13,024,023**
Income tax paid	(143,326)	-
Net cash generated from operating activities	**(4,863,750)**	**13,024,023**
CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows	**(79,425)**	**(49,097)**
Purchase of intangible and property, plant and equipment	(79,425)	(49,097)
Net cash outflow from investing activities	**(79,425)**	**(49,097)**
Total net received cash	25,814,317	32,649,565
Total net cash payments	(30,757,492)	(19,674,639)
NET INCREASE IN CASH	**(4,943,175)**	**12,974,926**
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	21,874,252	8,901,998
GAINS ON EXCHANGE	8,418	8,704
LOSS ON EXCHANGE	(9,842)	(11,376)
CASH AND CASH EQUIVALENTS, END OF YEAR	**16,929,653**	**21,874,252**

Belgrade, 23 March 2023

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR 2023

BANK OF CHINA SRBIJA AD BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 Bank was founded by Bank of China (Central and Eastern Europe) Limited. In accordance with the share sale and purchase agreement signed on March 24, 2022, between Bank of China (Central and Eastern Europe) Limited and Bank of China (Europe) S.A ., the transfer of 100% shares owned by Bank of China (Central and Eastern Europe) Limited to the new owner Bank of China (Europe) S.A. Luxembourg was concluded. Bank of China (Europe) S.A. Luxembourg became the sole shareholder of the Bank, and Bank of China (Central and Eastern Europe) Limited ceased to be the shareholder of the Bank.

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 2023, the Bank had no subsidiaries or branch offices within its composition.

As of 31 December 2023, the Bank had 28 employees (2022: 29 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 2023 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. 93/2020).

The enclosed financial statements have been prepared in accordance with the concept of historical cost.

In compiling these financial statements, the Bank has applied the Accounting Policies outlined in Note 3. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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)

2.1 Basis for compilation and disclosure of financial statements (continued)

The accompanying financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

Operating environment of the Bank

In March 2020, the World Health Organisation declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, the serbian authorities implemented numerous measures attempting to contain the spreading and impact of COVID-19, such as travel bans and restrictions, quarantines, shelter-in-place orders and limitations on business activity, including closures. Some of those measures were subsequently relaxed, however, as of 31 December 2023, there remains a risk that the authorities may impose additional restrictions as a response to possible new variants of the virus. At this moment, no such indicators have been observed.
At the beginning of 2022, there was increased volatility in the financial and commodity markets due to the escalation of political tensions in Ukraine, followed by international sanctions against certain Russian companies and individuals.

According to the published data of the NBS in February 2024, despite the multidimensional crisis that lasts almost 4 years, Serbia has managed to preserve the stability of its economy and the consumers and investors' confidence, as evidenced by cumulative real GDP growth in the period 2020-2023 of around 12%, record inflows of FDI, continued growth of employment and wages in the private sector, as well as a record level of FX reserves. Inflation has been falling since April, returned to a single-digit level in October, and slowed to 7.6% in December. Inflation will decline throughout the projection period - its return to the target range is expected in mid-2024, and it is expected to approach the central value of the target at the end of 2024.
It is estimated that the real movement of GDP in 2023 was 2.5%, while the projected GDP growth for 2024 is in the range of 3-4%, and in 2025 and 2026 an additional acceleration to the range of 4-5% is expected, in accordance with the new investment cycle associated with the Expo 2027 project.
According to the results of the Labor Force Survey, in the third quarter of 2023, the employment rate is 50.7%, while the unemployment rate is 9.0%.
The reference interest rate in February was kept at the level of 6.5%, bearing in mind that the further reduction of global inflationary pressures continued, as well as that the downward trajectory of domestic inflation was established and that it is expected to return to the target limits in mid-2024.

Management takes the necessary measures to ensure the sustainability of the Bank's operations and to support its customers and employees, such as:

- Remote work for for employees in the Bank's Head Office
- intensification of online trainings and trainings for employees on-line business communication between employees and employees and clients
- raising employee awareness of Cyber risks
- Strict monitoring of system performance
- responsible cost management
- keeping the bank fully operational, while preserving the safety and health of employees and clients.

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

2.1 Basis for compilation and disclosure of financial statements (continued)

Operating environment of the Bank (continued)

The analysis provided by the Bank shows that there are no exposures with an increased risk of non-collection due to the situation caused by the COVID-19 virus nor by the war in Ukraine. The Bank's credit exposure is mainly related to the exposure of the Group members (deposits and guarantees), which operate with good financial performance and whose operations are not jeopardized in these circumstances, therefore the Bank did not take into account the increased risk based on abovementioned.

For the purpose of measuring expected credit losses ("ECL"), the Bank uses forward-looking information, including forecasts of macroeconomic variables. However, as with any economic forecast, projections and probabilities of their occurrence are subject to a high degree of uncertainty and therefore actual outcomes may differ significantly from those projected. Note 3.19 provides more information on how the Bank incorporated forward-looking information into the ECL model.

Climate change – The Bank is not exposed to significant risks of climate change. Bearing this in mind, as well as the limited volume of placements, the Bank did not incorporate the risks associated with climate change into its ECL model.

The long-term effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from the actual results.

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

2.2 Adoption of New or Revised Standards and Interpretations

The following amended standards entered into force on 1 January 2023, but did not have a material impact on the Bank:

- **IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfillment cash flows) that incorporates all of the available information about the fulfillment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

- The adoption of these changes had no impact on the Bank's financial statements.

- **Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).** The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.

- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.

- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

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

2.2 Adoption of New or Revised Standards and Interpretations (continued)

- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfillment cash flows; and selected transition reliefs and other minor amendments. The adoption of these changes had no impact on the Bank's financial statements.
  - **Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).** The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and will result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment will help insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities would, for the purpose of presenting comparative information, be permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. The transition option would be available, on an instrument-by-instrument basis; allow an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying IFRS 9. The adoption of these changes had no impact on the Bank's financial statements.
  - **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).** IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments to the standards resulted in changes in the presentation of these financial statements, primarily in the removal of significant accounting policies that do not represent materially significant information about accounting policies.
  - **Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).** The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. The adoption of these changes had no impact on the Bank's financial statements.

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

2.2 Adoption of New or Revised Standards and Interpretations (continued)

- **Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).** The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The adoption of these changes had no impact on the Bank's financial statements.
- **Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023).** In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023. The adoption of these changes had no impact on the Bank's financial statements.

2.3 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Bank has not early adopted.

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).** The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate. The effects of these changes are not expected to have a significant impact on the Bank's financial statements.
- **Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).** These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period.

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

2.3 New Accounting Pronouncements (continued)

- Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The effects of these changes are not expected to have a significant impact on the Bank's financial statements.
- **Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023).** In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024. The effects of these changes are not expected to have a significant impact on the Bank's financial statements

<u>Amendments published but deferred</u>

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an 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 recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. In 2015, the IASB decided to postpone the effective date of these amendments indefinitely. The effects of these changes are not expected to have a significant impact on the Bank's financial statements.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Material accounting policies applied for the preparation of the financial statements for 2023 are presented below.

3.1 Interest Income and Expenses

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

The effective interest rate method is a method that calculates the amortized value of financial assets or financial liabilities, as well as the costs of allocating interest income or expenses in a certain period. The effective interest rate includes all fees and amounts paid or received between two contracting parties that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.

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.

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.

Interest income is calculated as follows:

- Applying the effective interest rate to the gross carrying amount of a financial asset (Stage 1 and Stage 2).
- Applying the effective interest rate on the amortised value of a financial asset in subsequent reporting periods, net of ECL as long as the asset has become credit impaired (Stage 3).
  The Bank does not have such financial assets in its portfolio as at 31.12.2023. nor as at 31.12.2022.
- Applying a credit-adjusted effective interest rate on purchased or created financial assets reduced for credit losses (POCI).
  The Bank does not have such financial assets in its portfolio as at 31.12.2023. nor as at 31.12.2022.

Interest expenses are calculated using the effective interest rate on the amortized value of a financial liability.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.2 Income and Expenses on Fees and Commissions

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes fees for issued guarantees and loan administration fees on behalf of third parties. These fees are deferred according to life period of a guarantee or a loan.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for payment services and other banking services, as well as, commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party (arrangement fee).These fees are not deferred during a period since they are one time fees.

Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself.
Expenses from fees and commissions consist of expenses from fees based on domestic and foreign payment transactions.

3.3 Sales and purchases of foreign currencies and currency conversion

The Bank sells and purchases foreign currencies through its bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised under "Income from fees and commissions" at a point in time when a particular performance obligation is satisfied.

3.4 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.

Monetary 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. Transactions 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 transaction. 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.

Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

3.5 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.6 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 changes in deferred taxes are recognized as income and expense and are included in the net profit/loss of the period.

3.7 Taxes, Contributions and Other Duties Not Related to Operating Result

Taxes, contributions and other duties that are not related to the Bank's operating result include property taxes, value added tax, payroll contributions charged to the employer and various other taxes, contributions and duties payable under the republic and municipal tax regulations. These are included under operating and other expenses within the income statement.

3.8 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.

(c) Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the reporting date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 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

Financial instruments – key measurement terms. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The price within the bid-ask spread that is most representative of fair value in the circumstances was used to measure fair value, which management considers is the average of actual trading prices.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 Financial Instruments (continued)

The fair value of financial instruments that are not traded in an active market is determined by the use of valuation techniques, appropriate in the circumstances, and for which sufficient data to measure fair value are available, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). More detailed disclosure on valuation models and hierarchy of instruments that are valued at fair value are given in Note 30. Transfers between levels of the fair value hierarchy are deemed not to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount by which the financial asset or financial liability is measured at initial recognition minus repayment of principal and plus or minus cumulative depreciation by using the effective interest rate method of any difference between that initial amount and the amount of maturity. For financial assets, the amount is adjusted for the impairment allowance. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The *effective interest method* is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

Effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected duration of a financial instrument or, if appropriate, a shorter period than the gross carrying amount of the financial asset or the net carrying amount of a financial liability.

When the effective interest rate is calculated, the Bank estimates cash flows taking into account all contractual terms of a financial instrument (for example, early repayment, purchase and similar options) but does not take into account future credit losses. The calculation includes all fees and points paid or received between the contracting parties, which are an integral part of the effective interest rate.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 Financial Instruments (continued)

Initial recognition and initial measurement

(i) Initial recognition

Financial assets and financial liabilities are recognized in the Bank's balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument. All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date the assets is delivered to the counterparty.

(ii) Initial measurement

All financial instruments are initially recognized at fair value adjusted for transaction costs that are directly attributable to acquisition or issue of financial assets or financial liabilities (except for financial assets and financial liabilities at fair value through profit and loss which are initially recognized at fair value). Fair value at initial recognition is best evidenced by the transaction price. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

Principles of subsequent measurement of financial instruments

Regarding classification and measurement, the Bank classifies financial assets, except for equity instruments and derivatives, based on the assessment of the business model for managing specific financial assets and contractual characteristics of cash flows of financial instruments.

(i*) Classification and measurement*

IFRS 9 requires that all financial assets, except derivatives and equity instruments, be analysed through the composition of the financial asset management business model on the one hand, and the characteristics of contracted cash flows on the other.

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 the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL. 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). Refer to Note 3.22 for critical judgements applied by the Bank in determining the business models for its financial assets.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 Financial Instruments (continued)

Principles of subsequent measurement of financial instruments (continued)

(i) *Classification and measurement (continued)*

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 3.19 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

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 reclassification of amounts recognised and accumulated in OCI to profit or loss.

Subsequent measurement of financial assets depends on their classification.

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.

On the balance sheet, these assets are carried at amortised cost, i.e. the gross carrying amount net of the credit loss allowance. They are presented under the lines 'Loans and receivables from banks and other financial organisations', 'Loans and receivables from clients' and 'Cash and assets held with the central bank'.
Financial assets at amortized cost are the largest category of measurement, as the entire credit portfolio of the Bank's is measured at amortized cost.

Cash balances include only claims (deposits) against central banks that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

Loans and receivables from banks and other financial organisations. Amounts due from other banks are recorded when the Bank advances money to counterparty banks.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 Financial Instruments (continued)

Principles of subsequent measurement of financial instruments (continued)

(i*) Classification and measurement (continued)*

Loans and receivables from clients are recorded when the Bank advances money to purchase or originate a loan due from a customer. If they are measured at amortized cost, loans and receivables are presented net of allowances for impairment in the balance sheet. Impairment allowances are determined based on the ECL models. Note 3.22 provides information about inputs, assumptions and estimation techniques used in measuring ECL

Interest income on these assets is calculated by effective interest method and is included under the position 'Interest income' in the statement of income. Impairment gains or losses are included in the position 'Impairment losses from financial assets and credit risk off-balance sheet items'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Net gains/losses from derecognition of financial instruments recognized at amortised cost'.

(iii) Expected credit loss

IFRS 9 requires a move from a loss model to an expected loss model. This means that the Bank recognizes not only credit losses that have already been incurred, but also losses that are expected in the future. The calculation of expected credit loss (ECL) is mandatory for all loans and other debt financial assets that are not in the FVPL, together with loan commitments and financial guarantee agreements.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the balance sheet.

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, 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 definition 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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.9 Financial Instruments (continued)

Principles of subsequent measurement of financial instruments (continued)

(iii) Expected credit loss (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.

Note 3.19 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Financial liabilities

(i) Measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

All financial liabilities of the Bank are classified as subsequently measured at AC as at 31.12.2023. and 31.12.2022.

3.10 Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual, commercial or legal obligation. Where the performance guarantee provides the Bank with contractual indemnification rights to recover any payments made to the guarantee holder from the applicant and such rights are covered by collateral, they are treated as a loan commitment provided to the applicant, if the bank concludes that there is no event with commercial substance that could cause the bank to incur an overall loss on the guarantee arrangement. Such performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the loss allowance determined based on the expected credit loss model. Note 3.22 provides information about inputs, assumptions and estimation techniques used in measuring ECL.

3.11 Loan commitments

The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.11 Loan commitments (continued)

At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

3.12 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 have a limited life and are stated at purchase value reduced by accumulated value adjustment. Amortization 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. Amortization is calculated using a proportional method in order to distribute expenditures during their estimated useful lives.

Amortization 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.

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.13 Property, plant and equipment

Items of property, plant and equipment 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 (straight-line method) method in order to distribute the cost to the residual value over their estimated life, as follows:

Buildings	2%
Right-of-use assets	Shorter of useful life and the term of the underlying lease
Electronic network, air conditioners, pipes and heating	4%
Computer equipment	33%
Other equipment	14.50%
Vehicles	20%

Land and construction in progress are not depreciated.

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/Other expenses".

3.14 Leases

Accounting for leases by the Bank as a lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments include fixed rents, variable rent payments that depend on the index or rate, amounts expected to be paid under the residual value guarantee, and lease payments over an optional extension period if the lessee estimates that they will exercise option, as well as penalties for early termination of the contract if the lease term reflects a lessees intention of using the termination option. Thereafter, the carrying amount of the lease liability is increased by interest calculated using the discount rate, less any lease payments made, and possibly revalued in accordance with the change in lease agreement.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.14 Leases (continued)

Lease liabilities are discounted using an interest rate that represents the implicit lease rate. If this rate cannot be determined, the Bank uses an incremental borrowing rate - the rate at which the Bank can borrow from Bank of China Group.

Right-of-use assets are measured at cost comprising the following: the amount of the initial measurement of lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs, and restoration costs.

The Bank adopts the same depreciation policy for leased assets (right of use of asset) as those for which it has title rights (i.e. 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.

Bank, as a lessee, on the day of lease establishing (i.e. 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. Expense relating to short-term leases are presented in Note 24.

3.15 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.

3.16 Deposits of banks and clients

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. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.17 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. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount.

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.

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 for liabilities and expenses in the financial statements are stated under the heading of Provisions.

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

Provisions are reviewed at every balance sheet date and adjusted so as to reflect the best current 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.

3.18 Equity

Equity consists of share capital (ordinary shares), issuance premiums, reserves and accumulated loss. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.19 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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.

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

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

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. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of recent macro-economic developments on future operations of the Bank. 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 initially recognized tax liabilities, this difference affects the tax liability of the period in which the difference was found.

(c) Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.19 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

(d) Business model assessment and assessment whether cash flows are solely payments of principal and interest ("SPPI")

Fulfilment analysis of whether the contracted cash flow of a financial asset leads to an increase in cash flow that is solely the payment of principal and interest (SPPI), which is the subject of significant assessment when classifying a financial asset. These estimates are crucial in the IFRS 9 classification and measurement process because they determine whether an asset will be measured at fair value through profit or loss (FVPL), or depending on the business model estimate, amortized cost (AC) or fair value through other comprehensive assets. result (FVOCI).

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.

Business models of the Bank:

- **Corporate banking - Loans and receivables: Hold to Collect (AC valuation method)**
  All loans and receivables are held in order to collect the contracted cash flows (principal and interest) during the total duration of the placement, i.e. until maturity. There is no trading in placements, that is, there is no placement of loans with the aim of selling them and making a profit based on the difference in price.
- **Treasury - Debt securities: Hold to Collect (AC valuation method)**
  Financial instruments, i.e. debt securities, in the "hold for collection" ("HtC") business model, are managed to generate cash flows by collecting contractual cash flows. Achieving a price difference is not the goal, nor the nature of this business model.

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.

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.19 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

(e) ***Credit Loss Allowance***

The expected credit loss model is based on judgment because it requires an estimate of a significant increase in credit risk and the measurement of expected losses without some more detailed guidance. Details of ECL measurement methodology are disclosed in Note 29.

Measurement of expected credit loss involves complex models that rely on historical default and loss rates, their extrapolation in case of insufficient data, individual estimations of credit loss-adjusted cash flows, and probability of scenario realization including forward-looking information.

The Bank regularly reviews the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

(f) Significant increase in credit risk ("SICR")

In terms of a significant increase in credit risk, the Bank has set out specific valuation rules that include quantitative and qualitative criteria. In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios.

(g) Performance guarantees treated as loan commitments

The Bank has concluded that its performance guarantee contracts expose the Bank solely to credit risk of the applicant because (i) all the contracts require the customers who apply for a guarantee to fully collateralise their obligations to indemnify the Bank as the issuer and (ii) there are no scenarios with commercial substance where the Bank would have to pay significant additional amounts to the holders of such guarantees. Accordingly, the Bank accounts for these contracts as loan commitments in accordance with IFRS 9. The gross amount of the performance guarantees issued and accounted for as loan commitments is RSD 9,491,916 thousand (31 December 2021: RSD 6,511,416 thousand). The fee income recognised for these performance guarantees was RSD 93,744 thousand for the year ended 31 December 2023 (2022: RSD 26,105 thousand).

3. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

3.19 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

(h) Determining the Fair Value of Financial Instruments

The fair value of financial instruments traded on an active market at the reporting date are based on the quoted market bid and ask prices, before the decrease by transaction costs. The fair value of financial instruments which are not listed on an active market are determined using adequate measurement techniques including techniques of net present value, comparison with similar instruments for which there are market prices and other relevant models.

When market inputs are unavailable, these are determined through assessments that include a certain degree of judgments in the fair value assessment. Models of estimates reflect the current market situation at the date of assessment and do not have to correspond to the market terms before or after the date of measuring. Hence, measurement techniques are revised periodically so they would best reflect current market terms.

(i) Valuation of right of use assets and leasing liabilities in accordance with IFRS 16

The estimates used by the Bank to measure financial leasing liabilities and right of use assets relate primarily to:

- Classification of contracts as subject to IFRS 16
- Determination of the lease term - the length of contracts that are subject to IFRS 16 (including contracts of indefinite duration and contracts that can be extended)
- Determination of depreciation rates
- Determining the interest rates that will be applied to discount future cash flows

At the moment of initial recognition of leases, the Bank uses a model which in accordance with IFRS 16 requirements. The lessee recognizes the right of use asset, which represents it's right to use the underlying property, and the lease liability, which, represents its lease payment obligation.

For each lease agreement, it is assessed whether it contains a lease i.e. whether the contract bears the right to control the use of the identified property in the contracted period in exchange for compensation.

In assessing the lease period, the Bank included a non-cancellation period, an optional lease extension period, if the lessee is relatively certain to exercise that option, a period covered by the option to terminate the lease, if the lessee is relatively certain that the option will not be used, while in case of a leasing without a defined (fixed) term, the Bank applied term determined in accordance with the best possible estimate of the lease term

The lease liability is initially measured at the present value of the lease payments not paid at the leasing contract inception date, discounted using the interest rate implied in the lease or, if the rate cannot be easily determined, the incremental borrowing rate.

The Bank uses an incremental borrowing rate - the rate at which the Bank can borrow from the Bank of China Group.

4. INTEREST INCOME AND EXPENSE

In RSD thousand	2023	2022
Interest income		
Interest income from deposits – domestic banks	400,272	119,059
Interest income from deposits – foreign banks	505,693	233,557
Interest income from deposits – customers	27,316	14,886
Total interest income	**933,281**	**367,502**
Interest expense		
Interest expense from deposits – domestic banks		
Interest expense from deposits – foreign banks	(1,064)	(1,079)
Interest expense from deposits in foreign currency – foreign banks	(30,857)	(22,194)
Lease interest expense	(1,651)	(1,742)
Total interest expense	**(33,572)**	**(25,015)**
Total net income	**899,709**	**342,487**

Interest income from foreign banks amounts to RSD 400,272 thousand (2022: RSD 119,059 thousand)

Interest income from foreign banks in the amount of RSD 505.693 thousand relates to interest income earned from placements with other member of the Bank of China Group (2022: RSD 233,557 thousand).

Interest expense in the amount of RSD 33,572 thousand (2022: RSD 25,015 thousand) incurred as a result of increased activity of raising deposit funds from customers as well as from the foreign bank sector (other members of the Group to which the Bank belongs).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

5. FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand	2023	2022
Income from bank charges		
Fee and commission income from payment transactions	64,156	57,498
Fee and commission income from guarantees	93,744	26,105
Fee and commission income intra group charges	342,242	407,563
Fee and commission income from other clients	53,516	54,686
Fee and commission income from foreign exchange business	614,452	383,544
Other fee income	1,471	1,108
Total income	**1,169,581**	**930,504**
Expense from bank charges		
Payment operations in foreign currency	(10,628)	(8,168)
Payment operations in RSD	(1,604)	(1,478)
Total expense:	**(12,232)**	**(9,646)**
Net fee and commission income	**1,157,349**	**920,858**

Major fee income was generated on the basis of foreign exchange transactions (2023: RSD 614,452 thousand, 2022: RSD 383,544 thousand), which increased due to the Bank's greater activity in providing foreign exchange services to its clients.

The second most important fee income comes from loan to clients arrangements where loans are approved by other members of the BOC group and where Bank of China Srbija a.d. acted as a contractor. This income, together with other income within the group, amounted to RSD 342,242 thousand (2022: RSD 407,563 thousand).

Income from fees and commissions from other clients in the amount of RSD 53,516 thousand (2022: RSD 54,686 thousand) refers to the fee for loan processing for new projects with legal entities from the non-financial sector for loans approved by other members of the BOC Group, where Bank of China Serbia a.d. acted as a contractor.

6. NET PROFIT FROM FOREIGHN EXCHANGE DIFFERENCES AND FOREIGHN CURRENCY CLAUSE

In RSD thousand	2023	2022
Other foreign exchange result from exchange operations	(9,843)	(11,267)
Net result from exchange of balance sheet items	8,416	8,594
Net result from the valuation of irrevocable off-balance sheet liabilities	(7,807)	7,610
		-
Net income from foreign exchange	**(9,234)**	**4,937**

Other income and expenses from exchange rate differences are insignificant because the Bank strives to have a uniform foreign exchange position during the year, i.e. a minimum exposure based on foreign exchange risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

7. IMPAIREMENT LOSSES FROM FINANCIAL ASSETS AND CREDIT RISK OFF-BALANCE SHEET ITEMS

In RSD thousand	2023	2022
Net expense (income) from increase (decrease) in ECL on financial assets at AC	(836)	804
Net expense (income) from increase (decrease) in ECL on off-balance sheet items	20,280	30,969
Total	**19,444**	**31,773**

8. SALARIES, WAGES AND OTHER PERSONAL EXPENSES

In RSD thousand	2023	2022
Cost of net salaries	189,321	185,530
Allowance costs	3,474	8,457
Taxes	29,529	32,201
Contributions	50,739	48,064
Other personal expenses	17,433	43,278
Total	**290,496**	**317,530**

The average number of employees at the end of 2023 was 28 (2022: average no. of employees was 28), however average salaries have increased, leading to the overall slight increase in salary expense.

Other personal expenses in the amount of RSD 17,433 thousand (2022: RSD 43,278 thousand) mainly relate to the provision for transportation costs and the expenses for business trips for 2022 in gross amount.

9. DEPRECIATION COSTS

In RSD thousand	2023	2022
Amortization of intangible assets (note 16)	8,612	11,474
Depreciation of fixed assets (note 17)	7,369	10,029
Depreciation expense – lease (note 17)	42,219	43,512
Total	**58,200**	**65,015**

10. OTHER EXPENSES

In RSD thousand	2023	2022
Office supplies costs	523	290
Expenses related to the lease of business premises	4,704	2,824
Fuel costs	945	765
Promotion and advertising costs	830	637
Costs of assignment of activities to other persons	1,787	1,671
Maintenance and repair costs of safety equipment	13,387	11,651
Costs of mobile and landline phones	2,958	2,569
Costs of renting office space from legal entities	6,258	6,269
Costs of renting office space from natural persons	33,840	27,927
Maintenance costs of leased facilities	3,757	4,016
Car rental costs	2,438	1,730
Rental costs of other equipment	689	-
Costs of a special internet line	4,990	4,215
Costs of using BOC software	18,620	18,504
Expenses incurred in connection with business trips	5,957	1,464
Representation expenses	6,990	4,532
Costs of advisory and other intellectual services	7,906	7,360
Other production costs	2,417	1,615
Costs of membership fees	1,920	1,425
Deposit insurance costs with a deposit insurance agency	1,265	1,026
Intangible costs	3,406	2,883
Costs of taxes, fees and charges according to regulatory bodies	14,266	4,606
Total	**139,853**	**107,979**

Costs of renting business premises with individuals in the amount of RSD 33,840 thousand (2022: RSD 27,927 thousand) relate to short-term leases of apartments for employees from abroad that have the character of earnings.

The costs of BOC software amount to RSD 18,620 thousand (2022: 18,504 thousand) and relate to investments in the bank's information system and improvement of the payment system.

11. INCOME TAX

In RSD thousand	**2023**	**2022**
Current tax	231,746	85,790
Deferred tax income	-	-
Deferred tax expense	1,578	1,142
Total	**233,324**	**86,932**

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	**2023**	**2022**
Gain / (Loss) before tax	1,539,831	745,985
Tax rate	15%	15%
Calculated income tax	230,975	111,898
Tax effect of non-deductible expenses	771	(558)
Tax effect of final tax billing	-	(25,550)
Tax expense for the period	**231,746**	**85,790**

11.1 Calculation of deferred tax income / expense

In RSD thousand	**2023**	**2022**
Tax effect of temporary differences concerning PPE and intangible assets	(1,578)	1,142
Net deferred tax income / (expense)	**(1,142)**	**1,088**

11.2 Deferred tax assets /liabilities

At year-end, deferred tax liabilities amount to RSD 4,648 thousand (2022: RSD 6,226 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

12. 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	**2023**	**2022**
Gain attributable to equity holders of the Company	1,306,508	659,053
Weighted average number of ordinary shares in issue	100	100
Basic earnings per share (expressed in RSD per share)	**13,065**	**6,591**

13. CASH AND ASSETS HELD WITH THE CENTRAL BANK

In RSD thousand	**2023**	**2022**
Current account at National Bank of Serbia	13,820,087	17,638,914
Regulatory reserve in RSD at NBS	3,105,103	4,235,338
Accrued receivables based on cash and deposits at the National Bank of Serbia	4,463	-
Total cash and deposits held with NBS:	**16,929,653**	**21,874,252**

The regulatory reserve increased compared to the previous year, RSD 3,105,103 thousand (2022: RSD 4,235,338 thousand), as a result of the increase in transaction deposits of the bank's clients.

Regulatory reserve in RSD at NBS represents the minimum amount of RSD reserves allocated in accordance with the Decision on Mandatory Reserves Held with the NBS. During 2023 NBS paid interest on the balance of the Bank's mandatory RSD reserve at the annual interest rate of 0.75%.

For the purpose of ECL measurement cash and deposits held with NBS are included in Stage 1. The Bank did not recognise any credit loss allowance.

For the purposes of the cash flow statement, cash and cash equivalents include balances with a maturity of less than three months from the date of acquisition, including cash and cash equivalents that are not subject to Central Bank restrictions, treasury bills and other appropriate securities, loans and advances made banks, due receivables from other banks and short-term government securities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

14. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANISATIONS

Structure by product

In RSD thousand	**Moody's**	**2023**	**2022**
Foreign currency			
FX current accounts with foreign banks			
Bank of China Limited, Hungary Branch	A1	576,542	1,463,419
Bank of China Frankfurt Branch	A1	2,599,334	4,217,828
Bank of China Luxemburg Branch	A1	10,087,355	19,126,372
Shanghai RMB Trading unit	A1	2,597,550	
Royal bank of Canada, Montreal, H.O.	Aa2	116	278
Loans and deposits to other banks			
Bank of China Macau Branch	A1	-	6,609,090
Bank of China Frankfurt Branch	A1		
		-	3,180
Receivables for interest income on loans and deposits		-	-
Accrued receivables from guarantees fee		(4)	
Total		**15,860,893**	**31,420,167**

The Bank foreign currency current accounts relates to the nostro account held with foreign banks. These accounts are within BOC Group, expect for Royal bank of Canada.

At present, all balances are classified in Stage 1 and there has been no movement to other levels during the year.

Since deposit funds have been placed for a term of up to 90 days and all funds have been placed within the Group no material impairment has been determined (Expected Credit Loss).

15. LOANS AND RECEIVABLES FROM CUSTOMERS

The Bank does not hold a portfolio of loans and advances to customers that do not meet the SPPI requirement for AC classification under IFRS 9. As a result, all loans and advances were classified as at AC from the date of initial recognition. The carrying amount presented in the balance sheet best represents the Bank's maximum exposure to credit risk arising from loans and advances to customers:

Structure by product **In RSD thousand**	**2023**	**2022**
F o r e i g n c u r e n c y		
Loans and deposits to the customers		
Corporate clients	-	587,060
Allowance	(1)	(832)
Accrued fees receivable from customers	10,780	18,295
Total	**10,779**	**604,523**

The balance of loan receivables to customers net of ECL amounts to RSD 10,779 thousand (2022: RSD 586,228 thousand). The decrease of receivables refers to the maturity and collection of loans. The entire amount on this balance sheet position as of 31.12.2023. refers to delimited claims from clients based on fees for performance guarantees.

At present, all loans and receivables are classified in Stage 1 and there has been no movement to other levels during the year.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

16. INTANGIBLE INVESTMENTS

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	Other intangible assets	Total
Cost			
As at 01.01.2022.	74,980	-	74,980
Additions	631	-	631
As at 31.12.2022.	**75,611**	**-**	**75,611**
Additions	11,320	567	11,887
Other	-	1,840	1,840
As at 31.12.2023.	**86,931**	**2,407**	**89,338**
Amortisation			
As at 01.01.2022.	(55,560)	-	(55,560)
Amortisation	(11,474)	-	(11,474)
As at 31.12.2022.	**(67,034)**	**-**	**(67,034)**
Amortisation	(7,345)	(1,267)	(8,612)
As at 31.12.2023.	**(74,379)**	**(1,267)**	**(75,646)**
Net book value as at			
31. December 2023.	**12,552**	**1,140**	**13,692**
31. December 2022.	**8,577**	**-**	**8,577**

17. 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
C o s t					
As at 01.01.2022.	293,754	35,955	78,347	58,713	466,769
Additions	-	4,471	2,760	1,751	8,982
Lease agreement expiration	-	(2,806)	-	-	(2,806)
Other					
As at 31.12.2022.	**293,754**	**37,620**	**81,107**	**60,464**	**472,945**
Additions	17,235	14,242	25,639	-	57,116
Lease agreement expiration	-	(4,575)	-	-	(4,575)
Other	-	-	-	-	-
As at 31.12.2023.	**293,754**	**37,620**	**81,107**	**60,464**	**472,945**
Impairment provisions					**-**
As at 01.01.2022.	(89,028)	(16,923)	(61,623)	(57,647)	(225,221)
Depreciation	(31,629)	(9,077)	(8,661)	(1,368)	(50,735)
Lease agreement expiration	-	-	-	-	-
Other	-	-	-	391	391
As at 31.12.2022.	**(120,657)**	**(26,000)**	**(70,284)**	**(58,624)**	**(275,565)**
Depreciation	(31,699)	(10,520)	(7,369)	-	(49,588)
Lease agreement expiration	-	4,575	-	-	4,575
Other	-	-	(2)	-	(2)
As at 31.12.2023.	**(152,356)**	**(31,945)**	**(77,655)**	**(58,624)**	**(320,580)**
Net book value as at					
31. December 2023.	**173,097**	**11,620**	**10,823**	**1,840**	**197,380**
31. December 2022.	**158,633**	**15,342**	**29,091**	**-**	**203,066**

During the year, there was an increase in property, plant and equipment of RSD 57,116 thousand (2022: RSD 8,982 thousand). Additions mainly relate to renewing the lease of vehicles as well as the lease of additional electronic equipment. During 2023, the lease agreement for business vehicles expired (RSD 4,575 thousand).

Most of the fixed assets are new and therefore there were no events that would indicate the impairment triggers for this part of assets.

18. CURRENT TAX ASSETS AND LIABILITIES

In RSD thousand	2023	2022
Current tax assets	143,327	-
Total	**143,327**	**-**

In RSD thousand	2023	2022
Current tax liabilities	296,327	64,582
Total	**296,327**	**64,582**

Current tax assets represent advance payments for corporate income tax during 2023. At the beginning of 2024 closing of total tax receivables and liabilities made during 2022, takes place.

19. OTHER ASSETS

In RSD thousand	2023	2022
Other receivables for deposits to lessors	11,964	13,911
Receivables accrued - valuation of assets from spot arbitrage	1,148	8,492
Deferred rental fee and other differed expenses	1,696	1,642
Total	**14,808**	**24,045**

Receivables from lessors relate to receivables from corporate clients and individuals in the amount of RSD 11,964 thousand (2022: RSD 13,911 thousand).

20. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

Liabilities to banks as at 31 December 2023 amounted to RSD 2 thousand (2022: RSD 3,405,526 thousand). These liabilities relate entirely to short-term deposits of other banks in the Bank of China Group placed with the Bank.

In RSD thousand	2023	2022
Current accounts of other financial institutions	-	-
Term deposits of other financial institutions	2	3,405,526
Total	**2**	**3,405,526**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

21. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

As of 31 December 2023 the Bank had liabilities for deposit in the total amount of RSD 27,002,062 thousand (2022: RSD 46,860,982 thousand). The sectorial structure of these deposits relates mostly entirely to the corporate sector, mostly engaging in the mining and manufacturing sector.

Structure by product

In RSD thousand	**2022**	**2021**
RSD		
Demand deposits	10,066,580	15,304,773
Total in RSD	**10,066,580**	**15,304,773**
Foreign currency		
Demand deposits	16,462,131	31,326,849
Time deposits	473,126	229,360
Accrued interest liabilities	224	-
Total in foreign currency	**16,935,481**	**31,556,209**
Total	**27,002,061**	**46,860,982**

Structure by sector

In RSD thousand	**2023**	**2022**
Corporate	24,344,266	45,024,978
Public enterprises	2,657,795	1,836,004
Total	**27,002,061**	**46,860,982**

22. PROVISIONS

At the end of the year provisions amounted to RSD 51,949 thousand (2022: RSD 31,834 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.

23. OTHER LIABILITIES

In RSD thousand	**2023**	**2022**
RSD		
Liabilities towards employees	12,357	13,531
Liabilities accrued	28,985	-
Payables for other tax and contributions	8,086	437
Suspense accounts	8,963	-
Accrued other expenditures in dinars	5,087	6,976
Total in RSD	**63,478**	**20,944**
Foreign currency		
Lease liabilities in foreign currency	178,929	189,355
Liabilities accrued in foreign currency	-	-
Liabilities for calculated fee and commission on the basis of other assets in foreign currency	12,752	26,259
Liabilities on transitory and temporary accounts - Unallocated inflow of funds	1,745,547	1,015,196
Accrued other expenditures in foreign currency	19,180	16,360
Total in foreign currency	**1,956,408**	**1,247,170**
Total	**2,019,886**	**1,268,114**

23. OTHER LIABILITIES (continued)

Increase in Liabilities on transitory and temporary accounts - unallocated inflow of funds is due to a late inflow of a client which is allocated to the relevant account next working day.

24. 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 liabilities 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 2022	**204,726**	**9,575**	**9,457**	**223,758**
Additions	-	4,471	-	4,471
Lease agreement expired	-	-	-	-
Depreciation expense	(31,629)	(6,209)	(5,674)	(43,512)
As at 1st Jan 2023	**173,097**	**7,837**	**3,783**	**184,717**
Additions	17,235	14,242	-	31,477
Lease agreement expiration	-	-	-	-
Depreciation expense	(31,699)	(6,737)	(3,783)	(42,219)
As at 31st Dec 2023	**158,633**	**15,342**	**-**	**173,975**

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

In RSD thousand	2023	2022
As at 1st Jan 2022	189,355	228,448
Additions	34,511	4,593
Interest expense	1,651	1,742
Expiring lease contract	-	-
Foreign exchange	(5,211)	(453)
Payments	(46,331)	(44,975)
As at 31st Dec 2022	**173,975**	**189,355**

The maturity analysis of lease liabilities are disclosed in and liquidity gap analysis is given in Note 27.

The following are the amounts recognized in profit or loss

In RSD thousand	2023	2022
Depreciation expense of right-of-use assets	42,219	43,512
Lease interest expense	1,651	1,742
Expense relating to short-term leases	40,098	34,501
Total expenses designated in P&L	**83,968**	**79,755**

25. EQUITY

The bank's share capital consists of 100 ordinary shares with nominal value of RSD 18,438,870 per share (2022: 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). Total sum of registered capital is paid in full amount. The owner of 100% of the Bank's shares as of 31 December 2023 is Bank of China (Europe) S.A. Luxembourg.

Profit from previous years amounted to RSD 660,246 thousand while the amount of RSD 1,306,508 thousand represents result (gain) from the current period.

26. OFF-BALANCE SHEET ITEMS AND POTENTIAL LIABILITIES

26.1 Off-balance sheet items

As of 31 December 2023, the Bank continued to issue performance guarantees and other off balance sheet items. The guarantees are secured by counter-guarantee from the members of the BOC group, while others are covered in cash deposits.

Structure by product

In RSD thousand	**2023**	**2022**
Issued guarantees and other sureties	9.491.916	6.511.416
Issued letters of credit	2.314.532	1.601.661
Other irrevocable commitments in foreign currency	2.529.910	2.309.852
Total	**14.336.358**	**10.422.929**

Off balance sheet items in the amount of RSD 9,491,916 thousand (2022: RSD 6,511,416 thousand) increased compared to the previous year as a result of increase in the Bank's activity in issuing performance guarantees. Other irrevocable commitments in foreign currency represent spot exchange temporary exposures due to foreign exchange activity which were completed first working day in 2024.

26.2 Contingencies and commitments

Legal proceedings. As of 31 December 2023, no court proceedings have been held against the Bank.

Tax contingencies. The Management of the Bank is of the opinion that there is no risk of any tax implications on the financial position of the Bank and therefore has made no provisions related to this matter in these financial statements. The Management has implemented internal controls to be in compliance with this transfer pricing legislation and has no reason to estimate any potential tax expenses related to this area

Future cash outflows related to leases. Where the Bank is a lessee, the future cash outflows, to which the Bank is potentially exposed and that are not reflected in the lease liabilities at 31 December 2023 relate mainly to short-term leases with monthly payments. Rent expense recorded for such leases for 202 is disclosed in Note 24.

27. RISK MANAGEMENT POLICIES

27.1 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.

27.2. 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.

27. RISK MANAGEMENT POLICIES (continued)

27.2 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.

27. RISK MANAGEMENT POLICIES (continued)

27.2 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 indicators
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.

27. RISK MANAGEMENT POLICIES (continued)

27.3 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 calculates liquidity ratios on a daily basis in accordance with the requirement of the National Bank of Serbia. The Bank's daily liquidity ratio during 2022, was always within prescribed regulatory limit (min 1) and at the 31.12.2023 amounts to 3.82 (2022: amounts to 3.62).
Monthly liquidity ratio – LCR –liquidity coverage ratio, during 2023, was always above prescribed regulatory limit of 100%. At the 31.12.2023 amounts to 285.14 (2022: amounts to 240.21).

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 December 2023 and 31 December 2022.

27. RISK MANAGEMENT POLICIES (continued)

27.3 Liquidity risk (continued)

Liquidity risk as of 31 December 2023 – **Maturity gap analysis of financial assets and liabilities**

In thousands of RSD	until 1 month	from 1 to 3 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	16,929,653	-	-	-	-	-	16,929,653
Receivables under derivatives	-	-	-	-	-	-	-
Loans and receivables from banks and other financial organizations	15,860,893	-	-	-	-	-	15,860,893
Loans and receivables from customers	10,779	-	-	-	-	-	10,779
Other asset	3,014	-	-	2,689	9,105	-	14,808
TOTAL FINANCIAL ASSETS	**32,804,343**	**-**	**-**	**2,689**	**9,105**	**-**	**32,816,137**
Liabilities under derivatives	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	2	-	-	-	-	2
Deposits and other liabilities due to customers	26,003,691	582,665	415,705	-	-	-	27,002,061
Other liabilities	2,019,886				-		2,019,886 -
TOTAL FINANCIAL LIABILITIES	**28,023,577**	**582,667**	**415,705**	**-**	**-**	**-**	**29,021,949**
FX exchange - on the assets side	2,529,911	-	-	-	-	-	2,529,911
Irrevocable commitments – on the assets side	219,166	324,144	132,510	872,399	7,943,697	-	9,491,916
FX exchange – on the liabilities side	2,529,911	-	-	-	-	-	2,529,911
Contingent liabilities from guarantees – liability side	219,166	324,144	132,510	872,399	7,943,697	-	9,491,916
OFF-BALANCE SHEET FINANCIAL ITEMS	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Liquidity maturity gap as of 31 December 2023	**4,780,766**	**(582,667)**	**(415,705)**	**2,689**	**9,105**	**-**	**3,794,188**

27. RISK MANAGEMENT POLICIES (continued)

27.3 Liquidity risk (continued)

Liquidity risk as of 31 December 2022 – **Maturity gap analysis of financial assets and liabilities**

In thousands of RSD	until 1 month	from 1 to 3 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	21,874,252	-	-	-	-	-	21,874,252
Receivables under derivatives	-	-	-	-	-	-	-
Loans and receivables from banks and other financial organizations	31,420,173	-	-	-	-	-	31,420,173
Loans and receivables from customers	-	-	18,295	587,060	-	-	605,355
Other asset	24,047	-	-	-	-	-	24,047
TOTAL FINANCIAL ASSETS	**53,318,472**	**-**	**18,295**	**587,060**	**-**	**-**	**53,923,827**
Liabilities under derivatives	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	3,405,526	-	-	-	-	3,405,526
Deposits and other liabilities due to customers	45,862,612	582,665	415,705	-	-	-	46,860,982
Other liabilities	1,268,114				-		1,268,114
							-
TOTAL FINANCIAL LIABILITIES	**47,130,726**	**3,988,191**	**415,705**	**-**	**-**	**-**	**51,534,622**
FX exchange - on the assets side	2,309,853	-	-	-	-	-	2,309,853
Irrevocable commitments – on the assets side	360,369	-	68,656	5,162,583	919,808	-	6,511,416
FX exchange – on the liabilities side	2,309,853	-	-	-	-	-	2,309,853
Contingent liabilities from guaranties – liability side	360,369 -	-	- 68,656	- 5,162,583	919,808	-	6,511,416
OFF-BALANCE SHEET FINANCIAL ITEMS	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Liquidity maturity gap as of 31 December 2022	**6,187,746**	**(3,988,191)**	**(397,410)**	**587,060**	**-**	**-**	**2,389,205**

27. RISK MANAGEMENT POLICIES (continued)

27.4 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 is any legal entity or private individual 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.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

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 endeavour 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.

Credit risk grading system

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 authorization 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 cannot be quantified and considered as subjective, as well as other circumstances and factors determined by the internal documents of the bank.

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Credit risk grading system (continued)

Corporate customer credit rating is categorized into four main types: A, B, C and D:

- *rating A* - the customers have a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks;
- *rating B* - the customers have a good credit status, relatively low probability of default within the next year, guaranteed repayment capability and uncertainties in their risk profile;
- *rating C* - the customers have a poor credit status, high probability of default within the next year, poor operating condition and financial status and significant credit risks.
- *rating D* - the customers have defaulted by the time of rating. Customers that have defaulted are directly rated D

These main categories include further subcategories.

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.

In order to strengthen credit asset management and objectively reflect credit asset quality, the Bank also adopted Rules of asset classification in line with the relating legal rules of Serbia and according to the requirements of the Serbian supervisory authorities and the BOC Head Office. The term "five-grade classification" mentioned in the Rules refers to the approach by which the Bank's credit assets are classified into five categories, i.e. performing, special mention, substandard, doubtful and loss, based on the risk levels. The last three categories are collectively referred to as non-performing credits.

Impairment assessment and measurement

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.

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Impairment assessment and measurement (continued)

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor ("CCF"). CCF is a coefficient that shows the probability of conversion of the committed amounts to an on-balance sheet exposure within a defined period. PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate ("EIR") for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

The Bank has two approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis. The Bank an assessment on an individual basis for corporate loans with loan balance above 2 million USD. There are no such loans in Bank's portfolio as at 31.12.2023. nor as at 31.12.2022.

The Bank performs an assessment on a portfolio basis for all other loans. When assessment is performed on a portfolio basis, the Bank determines the staging of the exposures and measures the loss allowance on a collective basis. The Bank analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD and discounted to present value using the instrument's effective interest rate.

The key principles of calculating the credit risk parameters. The EADs are determined based on the expected payment profile, that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the developed statistical internal credit rating model and the latest available historic default data. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Impairment assessment and measurement (continued)

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. Due to the limitation of data, LGD 45% is used for most loans. However, a lower LGD will be used for loans with credit risk mitigation (such as guaranteed loans or collateralized loans).

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment. CCF for undrawn credit lines of corporate customers and for financial guarantees is defined based on expert judgement and regulatory guidelines. .

Forward-looking information incorporated in the ECL models. The Z-factor is determined based on a scorecard method, which considers GDP growth rate, unemployment rate, inflation – Consumer Price Index (CPI) and stability of monetary policy, as well as average NPL ratio of banking industry. Merton model is used to adjust the PD parameter (which captures the relationship between systematic risk factor and potential macro-economic variables).

There are four scenarios in the ECL model, including baseline, optimistic, pessimistic and severely pessimistic scenarios.

Baseline scenarios: forecasts of GDP growth rate, unemployment rate and CPI are from IMF. Volatility of monetary policy interest rate and NPL ratio of banking industry are calculated based on observable historical value.

Optimistic, pessimistic and severely pessimistic scenarios: GDP forecasts for optimistic scenario are calculated by + 0.5 historical standard deviation to baseline forecasts while GDP forecasts for pessimistic and severely pessimistic scenarios are calculated by - 0.5 and - 1 historical standard deviation to baseline forecasts, respectively. Unemployment rate and CPI forecasts moved in the opposite direction and same magnitude as GDP.

Weightings of each scenarios are calculated based on global GDP growth rate forecasts (from IMF) and then adjusted based on management's assessment of risk level of each category.

The Bank and the Group the Bank belongs to regularly review ECL methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

For purposes of measuring PD, the Bank defines default as a situation when the exposure meets one or more of the following criteria:

- Overdue 90 days or more;
- The debtor's credit rating is D on reporting date;
- Five-category Asset Classification is non-performing;
- Current debtors in blacklist

For purposes of disclosure, the Bank fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Bank.

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Impairment assessment and measurement (continued)

The Bank considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

- Overdue 31 to 90 days;
- The debtor's credit rating is lower than BBB, and the PD value corresponding to the current debtor's credit rating is greater than or equals to 100% of the PD value corresponding to the debtor's initial credit rating, i.e. ΔPD = $PDreport – PDinitial\ PD$initial ≥ 100%;
- Five-category Asset Classification is Special-mention;
- Current debtors in special mention list that the borrower's financial and management situation has changed greatly, but has not yet satisfied the definition of default criteria

The Bank decided not to use the low credit risk assessment exemption.

In accordance with above, during 2023, Bank categorize its exposure based on financial institution counterguarntees with first class rating, into Stage 1.

The following table shows the change in loans and receivables from customers by level of risk during 2023:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross balance as of 1st January 2023	**605,355**	**-**	**-**	**-**	**605,355**
New assets originated or purchased	-	-	-	-	-
Payments and assets derecognized (excluding write offs)	(605,355)	-	-	-	(605,355)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes – accrued receivables	10,799	-	-	-	10,799
Gross balance as of 31st December 2023	**10,799**	**-**	**-**	**-**	**10,799**

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Impairment assessment and measurement (continued)

As of 31st December 2022 the Bank balance sheet exposure to customers amounted to:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross balance as of 1st January 2022	**588,359**	**-**	**-**	**-**	**588,359**
New assets originated or purchased	-	-	-	-	-
Payments and assets derecognized (excluding write offs)	(1,299)	-	-	-	(1,299)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes – accrued receivables	18,295	-	-	-	18,295
Gross balance as of 31st December 2022	**605,355**	**-**	**-**	**-**	**605,355**

The following table shows the changes in gross exposure during 2023 on the basis of off-balance sheet items, i.e. performance guarantees:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross balance as of 1st January 2023	**6,511,416**	**-**	**-**	**-**	**6,511,416**
New assets originated or purchased	3,365,838	-	-	-	3,365,838
Payments and assets derecognized (excluding write offs)	(385,338)	-	-	-	(385,338)
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 2023	**9,491,916**	**-**	**-**	**-**	**9,491,916**

The following table shows the changes in gross exposure during 2022 on the basis of off-balance sheet items, i.e. performance guarantees:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross balance as of 1st January 2022	**2,406,861**	**-**	**-**	**-**	**2,406,861**
New assets originated or purchased	4,901,292	-	-	-	4,901,292
Payments and assets derecognized (excluding write offs)	(796,737)	-	-	-	(796,737)
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 2022	**6,511,416**	**-**	**-**	**-**	**6,511,416**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Impairment assessment and measurement (continued)

The following table shows the changes in value adjustments of loans and receivables from customers by levels of impairment during 2023:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2023	**(833)**	**-**	**-**	**-**	**(833)**
New assets originated or purchased	-	-	-	-	-
Payments and assets derecognized (excluding write offs)	**833**	-	-	-	**833**
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 2023	**-**	**-**	**-**	**-**	**-**

As of 31st December 2022 The Bank had following allowances for customers:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2022	**(35)**	**-**	**-**	**-**	**(35)**
New assets originated or purchased	(911)	-	-	-	(911)
Payments and assets derecognized (excluding write offs)	113	-	-	-	113
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 2022	**(833)**	**-**	**-**	**-**	**(833)**

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

The following table shows the changes in the value adjustment of exposures based on off-balance sheet records, i.e. performance guarantees: by levels of impairment during 2023:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2023	**(31,837)**	**-**	**-**	**-**	**(31,837)**
New assets originated or purchased	(62,079)	-	-	-	(62,079)
Payments and assets derecognized (excluding write offs)	41,966	-	-	-	41,966
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 2023	**(51,950)**	**-**	**-**	**-**	**(51,950)**

The following table shows the changes in the value adjustment of exposures based on off-balance sheet records, i.e. performance guarantees: by levels of impairment in 2022:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2022	**(975)**	**-**	**-**	**-**	**(975)**
New assets originated or purchased	(50,020)	-	-	-	(50,020)
Payments and assets derecognized (excluding write offs)	19,158	-	-	-	19,158
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 2022	**(31,837)**	**-**	**-**	**-**	**(31,837)**

During 2023, the Bank had payable guarantees from the Bank of China Group for loans issued to customers, while it had deposits with 100% coverage for issued performance guarantees as collaterals.

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Write-off policy

Financial assets are derecognised, in whole or in part, when the Bank has exhausted all practical recovery efforts. and concluded that there were no reasonable expectations of recovery.

In addition, the Bank in accordance with the Decision of the National Bank of Serbia on the accounting write-off of balance sheet assets of the bank "Official Gazette of RS", no. 77/2017 of 10 August 2017, performs accounting write-off of problematic receivables in the case when the amount of impairment of that receivable is calculated, which the bank recorded in favour of the value allowance of 100% of its gross book value.

During 2023 and 2022, the Bank did not perform any write off financial assets.

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.

27. RISK MANAGEMENT POLICIES (continued)

27.4 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 2023							
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**	**Out of which: Impairment allowance Exposure without stage**	**Net amount**
Cash and balances with Central Bank	16,929,653	-	16,929,653	-	-	-	16,929,653
Receivables under derivatives	-	-	-	-	-	-	-
Loans and receivables from banks and other financial institutions	15,860,897	15,860,897	-	(4)	(4)	-	15,860,893
Loans and advances to customers	10,779	10,779	-	-	-	-	10,779
Other receivables	14,808	-	14,808	-	-	-	14,808
Balance as of 31st December	**32,816,137**	**15,871,676**	**16,944,461**	**(4)**	**(4)**	**-**	**32,816,133**
Payment and performance guarantees	9,491,916	9,491,916	-	(51,950)	(51,950)	-	9,439,966
Letters of credit	-	-	-	-	-	-	-
Other off-balance sheet asset-spot purchase and sale	2,529,910	-	2,529,910	-	-	-	2,529,910
Other contingent liabilities	-	-	-	-	-	-	-
Balance as of 31st December	**12,021,826**	**9,491,916**	**2,529,910**	**(51,950)**	**(51,950)**	**-**	**11,969,876**
TOTAL	**44,837,963**	**25,363,592**	**19,474,371**	**(51,954)**	**(51,954)**	**-**	**44,786,009**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Maximum credit risk exposure (continued)

31st Dec 2022							
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**	**Out of which: Impairment allowance Exposure without stage**	**Net amount**
Cash and balances with Central Bank	21,874,252	-	21,874,252	-	-	-	21,874,252
Receivables under derivatives	-	-	-	-	-	-	-
Loans and receivables from banks and other financial institutions	31,420,173	31,420,173	-	(6)	(6)	-	31,420,167
Loans and advances to customers	605,355	605,355	-	(833)	(833)	-	604,522
Other receivables	24,047	-	24,047	-	-	-	24,047
Balance as of 31st December	**53,923,827**	**32,025,528**	**21,898,299**	**(839)**	**(839)**	**-**	**53,922,988**
Payment and performance guarantees	6,511,416	6,511,416	-	(31,837)	(31,837)	-	6,479,579
Letters of credit	-	-	-	-	-	-	-
Other off-balance sheet asset-spot purchase and sale	2,309,853	-	2,309,853	-	-	-	2,309,853
Other contingent liabilities	-	-	-	-	-	-	-
Balance as of 31st December	**8,821,269**	**6,511,416**	**2,309,853**	**(31,837)**	**(31,837)**	**-**	**8,789,432**
TOTAL	**62,745,096**	**38,536,944**	**24,208,152**	**(32,676)**	**(32,676)**	**-**	**62,712,420**

27. RISK MANAGEMENT POLICIES (continued)

27.4 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 periods. 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.

The following table shows data on the type and value of collateral and guarantee providers by credit sector and categories of receivables as at 31 December 2023:

Collateral value as of 31 December 2023										
							Guarantees ** issued by			
Financial assets	**Deposits**	**Securities**	**Real estate**	**Other real estate**	**Pledges on commodity bills and animals**	**Other assets**	**State**	**Banks**	**Related parties**	**Other**
Loans and receivables from customers	-	-	-	-	-	-	-	-	-	-
-of which: Public sector	-	-	-	-	-	-	-	-	-	-
-from that: Corporate	-	-	-	-	-	-	-	10,779	-	-
-of which: Retail	-	-	-	-	-	-	-	-	-	-
-from that: Other clients	-	-	-	-	-	-	-	-	-	-
Other funds	-	-	-	-	-	-	-	-	-	-
Balance sheet assets	-	-	-	-	-	-	-	10,779	-	-
Payable and performance guarantees	650,957	-	-	-	-	-	-	8,789,009	-	-
Uncovered letters of credit	-	-	-	-	-	-	-	-	-	-
Unused commitments	-	-	-	-	-	-	-	-	-	-
Contingent liabilities and commitments	**650,957**	**-**	**-**	**-**	**-**	**-**	**-**	**8,789,009**	**-**	**-**
Balance as of December 31, 2023	**650,957**	**-**	**-**	**-**	**-**	**-**	**-**	**8,799,788**	**-**	**-**

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

Collateral and other credit risk mitigation techniques (continued)

The following table shows data on the type and value of collateral and guarantee providers by credit sector and categories of receivables as at 31 December 2021:

Collateral value as of 31 December 2022										
							Guarantees ** issued by			
Financial assets	Deposits	Securities	Real estate	Other real estate	Pledges on commodity bills and animals	Other assets	State	Banks	Related parties	Other
Loans and receivables from customers	-	-	-	-	-	-	-	-	-	-
-of which: Public sector	-	-	-	-	-	-	-	-	-	-
-from that: Corporate	-	-	-	-	-	-	-	604,522	-	-
-of which: Retail	-	-	-	-	-	-	-	-	-	-
-from that: Other clients	-	-	-	-	-	-	-	-	-	-
Other funds	-	-	-	-	-	-	-	-	-	-
Balance sheet assets	-	-	-	-	-	-	-	604,522	-	-
Payable and performance guarantees	207,561	-	-	-	-	-	-	6,272,018	-	-
Uncovered letters of credit	-	-	-	-	-	-	-	-	-	-
Unused commitments	-	-	-	-	-	-	-	-	-	-
Contingent liabilities and commitments	**207,561**	**-**	**-**	**-**	**-**	**-**	**-**	**6,272,018**	**-**	**-**
Balance as of December 31, 2022	**207,561**	**-**	**-**	**-**	**-**	**-**	**-**	**6,876,540**	**-**	**-**

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

The following table shows credit risk exposure analysis by individually and collectivly impaired exposures as of 31 December, 2023:

31.12.2023							
Classes of exposures	**Total**	**Collective**				**Individual**	**Without Stage**
		Stage 1	**Stage 2**	**Stage 3**	**Subtotal collective**	**Stage 3**	**Balance without Stage**
Cash and balances with Central Bank	16,929,653	-	-	-	-	-	16,929,653
Receivables under derivatives	-	-	-	-	-	-	-
Loans and receivables from banks and other financial institutions	15,860,893	15,860,893	-	-	15,860,893	-	-
Loans and receivables from customers	10,779	10,779	-	-	10,779	-	-
- Public sector	-	-	-	-	-	-	-
- Corporate	10,779	10,779	-	-	10,779	-	-
- Retail	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-
Other assets	14,808	-	-	-	-	-	14,808
TOTAL FINANCIAL ASSETS	**32,816,133**	**15,871,672**	**-**	**-**	**15,871,672**	**-**	**16,944,461**
Payment and performance guarantees	9,439,966	9,439,966	-	-	9,439,966	-	-
Non-covered letters of credit	-	-	-	-	-	-	-
Other off-balance sheet asset-spot purchase and sale	2,529,910	-	-	-	-	-	2,529,910
Other	-	-	-	-	-	-	-
TOTAL OFF-BALANCE SHEET FINANCIAL ITEMS	**11,969,876**	**9,439,966**	**-**	**-**	**9,439,966**	**-**	**2,529,910**
Total exposure as of 31st December	**44,786,009**	**25,311,638**	**-**	**-**	**25,311,638**	**-**	**19,474,371**

27. RISK MANAGEMENT POLICIES (continued)

27.4 Credit risk (continued)

The following table shows credit risk exposure analysis by individually and collectivly impaired exposures as of 31 December, 2022:

31.12.2022							
		Collective				Individual	Without Stage
Classes of exposures	Total	Stage 1	Stage 2	Stage 3	Subtotal collective	Stage 3	Balance without Stage
Cash and balances with Central Bank	21,874,252	-	-	-	-	-	21,874,252
Receivables under derivatives	-	-	-	-	-	-	-
Loans and receivables from banks and other financial institutions	31,420,173	31,420,173	-	-	31,420,173	-	-
Loans and receivables from customers	605,355	605,355	-	-	605,355	-	-
- Public sector	-	-	-	-	-	-	-
- Corporate	605,355	605,355	-	-	605,355	-	-
- Retail	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-
Other assets	24,046	-	-	-	-	-	24,046
TOTAL FINANCIAL ASSETS	**53,923,826**	**32,025,528**	**-**	**-**	**32,025,528**	**-**	**21,898,298**
Payment and performance guarantees	6,511,416	6,511,416	-	-	6,511,416	-	-
Other off-balance sheet asset-spot purchase and sale	2,309,853	-	-	-	-	-	2,309,853
Other	-	-	-	-	-	-	-
TOTAL OFF-BALANCE SHEET FINANCIAL ITEMS	**8,821,269**	**6,511,416**	**-**	**-**	**6,511,416**	**-**	**2,309,853**
Total exposure as of 31st December	**62,745,095**	**38,536,944**	**-**	**-**	**38,536,944**	**-**	**24,208,151**

27. RISK MANAGEMENT POLICIES (continued)

27. 5 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.

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2023 is set out below:

	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	16,929,653	-	-	**16,929,653**
Receivables under derivatives	-	-	-	**-**
Loans and receivables from banks and other financial organisations	-	13,263,231	2,597,662	**15,860,893**
Loans and receivables from clients	10,779	-	-	**10,779**
Other financial assets	14,808			**14,808**
Total financial assets	**16,955,240**	**13,263,231**	**2,597,662**	**32,816,133**
Financial liabilities				
Liabilities under derivatives	-	-	-	**-**
Deposits and other liabilities to banks, other financial organisations and central bank	-	2	-	**2**
Deposits and other financial liabilities to clients	26,986,524	998	14,539	**27,002,061**
Other financial liabilities	2,019,886	-	-	**2,019,886**
Total financial liabilities	**29,006,410**	**1,000**	**14,539**	**29,021,949**
Net position in on-balance sheet financial instruments	**(12,051,170)**	**13,262,231**	**2,583,123**	**3,794,184**

27. RISK MANAGEMENT POLICIES (continued)

27. 5 Concentration risk (continued)

The geographical concentration of the Bank's financial assets and liabilities at 31 December 2022 is set out below:

	Serbia	Europe	The rest of the world	Total
Financial assets				
Cash and assets held with the central bank	21,874,252	-	-	**21,874,252**
Receivables under derivatives	-	-	-	**-**
Loans and receivables from banks and other financial organisations	-	24,807,619	6,612,548	**31,420,167**
Loans and receivables from clients	605,355	-	-	**605,355**
Other financial assets	24,046			**24,046**
Total financial assets	**22,503,653**	**24,807,619**	**6,612,548**	**53,923,820**
Financial liabilities				
Liabilities under derivatives	-	-	-	**-**
Deposits and other liabilities to banks, other financial organisations and central bank	-	3,405,526	-	**3,405,526**
Deposits and other financial liabilities to clients	46,673,641	153,642	33,699	**46,860,982**
Other financial liabilities	1,268,114	-	-	**1,268,114**
Total financial liabilities	**47,941,755**	**3,559,168**	**33,699**	**51,534,622**
Net position in on-balance sheet financial instruments	**(25,438,102)**	**21,248,451**	**6,578,849**	**2,389,198**

27. RISK MANAGEMENT POLICIES (continued)

27.6 Foreign exchange risk

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, 2023, 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	3,105,103	-	-	13,824,550	16,929,653
Receivables under derivatives	-	-	-	-	-
Loans and receivables from banks and other financial institutions	2,604,725	10,048,804	3,207,364	-	15,860,893
Loans and receivables from customers	-	-	-	10,779	10,779
Other assets	9,084	-	-	5,724	14,808
TOTAL FINANCIAL ASSETS	**5,718,912**	**10,048,804**	**3,207,364**	**13,841,053**	**32,816,133**
Liabilities under derivatives	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	2	-	-	-	2
Deposits and other liabilities due to customers	4,677,256	10,843,691	1,414,534	10,066,580	27,002,061
Other liabilities	980,430	289,606	686,372	63,478	2,019,886
TOTAL FINANCIAL LIABILITIES	**5,657,688**	**11,133,297**	**2,100,906**	**10,130,058**	**29,021,949**
Off-balance financial instrument – long position	14,473	1,174,052	74,590	-	1,263,115
Off-balance financial instrument – short position	1	89,059	1,177,736	-	1,266,796
Net open foreign position as of 31st Dec 2022	**75,696**	**500**	**3,312**	**3,710,995**	**3,790,503**

As of December 31, 2023, foreign exchange risk amounts to 3.19% (regulatory prescribed maximum limit is 20% of regulatory capital, 2022: 0.96%). In case of increase of the exchange rate by 10%, there will be a positive effect in the form of net income from exchange rate differences in the amount of RSD 7,901 thousand.

27. RISK MANAGEMENT POLICIES (continued)

27.6 Foreign exchange risk

As of December 31, 2022, 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	4,235,339	-	-	17,638,913	21,874,252
Receivables under derivatives	-	-	-	-	-
Loans and receivables from banks and other financial institutions	1,463,419	28,368,030	1,588,718	-	31,420,167
Loans and receivables from customers	586,227	-	-	18,295	604,522
Other assets	9,096	-	-	14,951	24,047
TOTAL FINANCIAL ASSETS	**6,294,081**	**28,368,030**	**1,588,718**	**17,672,159**	**53,922,988**
Liabilities under derivatives	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	3,405,526	-	-	-	3,405,526
Deposits and other liabilities due to customers	2,829,509	26,187,558	2,539,142	15,304,773	46,860,982
Other liabilities	216,088	1,031,081	-	20,945	1,268,114
TOTAL FINANCIAL LIABILITIES	**6,451,123**	**27,218,639**	**2,539,142**	**15,325,718**	**51,534,622**
Off-balance financial instrument – long position	204,834	-	951,843	-	1,156,677
Off-balance financial instrument – short position	-	1,153,176	-	-	1,153,176
Net open foreign position as of 31st Dec 2022	**47,792**	**(3,785)**	**1,419**	**2,346,441**	**49,211**

27. RISK MANAGEMENT POLICIES (continued)

27.7 Exposure to other financial risks

Interest rate risk

Interest rate risk is the risk of negative effects on the Bank's financial result and capital due to changes in the level of interest rates. Changes in interest rates directly affect interest income due to the mismatch of total interest-bearing assets and liabilities or the period of fixing the price of interest-bearing instruments. The Bank monitors and controls the exposure to interest rate risk on interest rate sensitive instruments.
Analysing the positions of balance sheet assets and liabilities implies determining interest rate sensitive items classified according to the period of interest rate re-formation, i.e. determining the expected distribution of future cash flows.

in RSD thousand	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	Not rate sensitive assets	Total
Cash and balances with Central Bank	13,824,550	-	-	-	-	-	3,105,103	16,929,653
Receivables under derivatives	-	-	-	-	-	-	-	-
Loans and receivables from banks and other financial institutions	15,860,897	-	-	-	-	-	-	15,860,897
Loans and receivables from customers	-	-	-	-	-	-	10,779	10,779
Other assets	-	-	-	-	-	-	14,808	14,808
TOTAL FINANCIAL ASSETS	**29,685,447**	**-**	**-**	**-**	**-**	**-**	**3,130,690**	**32,816,137**
Liabilities under derivatives	-	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	2	-	-	-	-	-	-	2
Deposits and other liabilities due to customers	26,528,711	473,350	-	-	-	-	-	27,002,061
Other liabilities	-	-	-	-	-	-	2,019,886	2,019,886
TOTAL FINANCIAL LIABILITIES	**26,528,713**	**473,350**	**-**	**-**	**-**	**-**	**2,019,886**	**29,021,949**
Net exposure to interest risk as of								
- **31 December 2023**	**3,156,734**	**(473,350)**	**-**	**-**	**-**	**-**	**1,110,804**	**3,794,188**

27. RISK MANAGEMENT POLICIES (continued)

27.7 Exposure to other financial risks

Interest rate risk (continued)

in RSD thousand	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	Not rate sensitive assets	Total
Cash and balances with Central Bank	17,649,501	-	-	-	-	-	4,224,751	21,874,252
Receivables under derivatives	-	-	-	-	-	-	-	-
Loans and receivables from banks and other financial institutions	31,416,991	-	-	-	-	-	3,182	31,420,173
Loans and receivables from customers	-	-	-	586,612	-	-	18,743	605,355
Other assets	-	-	-	-	-	-	24,047	24,047
TOTAL FINANCIAL ASSETS	**49,066,492**	**-**	**-**	**586,612**	**-**	**-**	**4,270,723**	**53,923,827**
Liabilities under derivatives	-	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	3,402,351	-	-	-	-	-	3,175	3,405,526
Deposits and other liabilities due to customers	46,631,622	229,360	-	-	-	-	-	46,860,982
Other liabilities	-	-	-	-	-	-	1,268,114	1,268,114
TOTAL FINANCIAL LIABILITIES	**50,033,973**	**229,360**	**-**	**-**	**-**	**-**	**1,271,289**	**51,534,622**
Net exposure to interest risk as of								
- **31 December 2022**	**(967,481)**	**(229,360)**	**-**	**586,612**	**-**	**-**	**2,999,434**	**2,388,372**

27. RISK MANAGEMENT POLICIES (continued)

27.7 Exposure to other financial risks

Interest rate risk (continued)

The risk of changes in interest rates is also monitored by sensitivity analysis - scenario analysis, i.e. by observing the impact of changes in interest rates on the Bank's income and expenses.

The following table shows the sensitivity of the Bank's income statement to reasonably possible changes in interest rates (1%) while constantly maintaining other variables. The sensitivity of the income statement represents the effect of assumed changes in interest rates on net interest income in one year on financial assets and liabilities based on interest rates as at 31 December 2023 and 31 December 2022.

Currency	Change in percentage point	Sensitivity on the income statement for the period ended 31 December 2023.	Change in percentage point	Sensitivity on the income statement for the period ended 31 December 2022.
Increase of percentage points:				
RSD	1%	233,18	1%	160.75
EUR	1%	-1,346,11	1%	-437.69
USD	1%	-455,27	1%	873.83
Other	1%	717,11	1%	-380.27
Decrease of percentage points:				
RSD	1%	-233,18	1%	-160.75
EUR	1%	1,346,11	1%	437.69
USD	1%	455,27	1%	-873.83
Other	1%	-717,11	1%	380.27

27. RISK MANAGEMENT POLICIES (continued)

27.8 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 RS, no. 45/2011, 94/2011, 119/2012, 123/2012, 23/2013 - other decision, 43/2013, 92/2013, 33/2015, 51/60, 103/2016, 119/2017, 76 / 2018, 57/2019, 88/2019, 27/2021 and 67/2021 - other decision) and the Decision on Capital Adequacy Official Gazette of RS, no. 103/2016, 103/2018, 88/2019, 67/2021, 98/2021, 137/2021 and 59/2022).

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 31st 2023 and 2022:

In thousands RSD	2023	2022
Share equity	1,843,887	1,843,887
Share premium	-	-
Profit from previous years eligible for inclusion in share capital	-	-
Retained loss from the previous period	660,246	1,193
Other intangible assets before related deduction of deferred tax liabilities	(13,692)	(8,577)
Tier 1 Capital	**2,490,441**	**1,836,503**
Tier 2 Capital	-	-
Regulatory capital (1)	**2,490,441**	**1,836,503**
Total risk weighted assets (2):	**5,812,137**	**8,243,086**
Capital adequacy (1/2 x 100)	**42.85%**	**22.28%**

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value stated in the financial statements is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an independent transaction.

The Bank measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

- Level 1: quoted market prices (unadjusted) in active markets for an identical instrument.
- Level 2: Valuation techniques based on observable inputs that do not represent quoted prices from level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments that are valued using: quoted market prices in active markets for similar instruments; stated prices for the same or similar instruments on the market that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly apparent from market data.
- Level 3: Assessment techniques using significant inconspicuous inputs. This category includes all instruments, where the valuation technique includes inputs not based on observable data and non-observable inputs have a significant impact on the valuation of the instrument. This category includes instruments that are valued on the basis of quoted prices of similar instruments where significant inconspicuous adjustments or assumptions are required to reflect the difference between the instruments.

In the opinion of the Bank's management, the amounts of financial assets and liabilities disclosed in the accompanying financial statements reflect the value that is most reliable and useful in the circumstances.

As of 31st December 2023 and 31st December 2022 the Bank does not have in its portfolio financial instruments that are recognized at fair value in the financial statements.

The Bank's management believes that due to the nature of its operations and its general policies, the fair value of its financial instruments not measured at fair value, which is based on market interest rates from December 2023, does not deviate significantly from their carrying amount. Market volatility described in Note 31 may lead to deviations in subsequent accounting periods.

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 2023, 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 2023 were as follows:

Business indicators	Prescribed	Realized
1. Capital	EUR 10 million	RSD 1,836,503 thousand
2.1 Capital adequacy ratio	4.5%	42.85%
2.2 The Tier 1 capital ratio	6%	42.85%
2.3 The Common Equity Tier 1 capital ratio	8%	42.85%
3. Bank investments	Max 60%	8.15%
4. Exposure to one person or a group of related parties	25%	1.32%
5 Exposure to persons affiliated with the Bank	25%	1.32%
6. Sum of big exposures of the Bank	400%	1.32%
7. Foreign exchange risk indicator	20%	3.19%

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 2023 and 2022 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	2023	2022
Income and expenses		
Interest income	451,330	233,557
Interest expenses	(12,242)	(25,250)
Income from fees from issued guarantees	71,112	24,091
Income from fees and commissions	220,313	407,563
Fees related to related parties - IT centre	(23,913)	(2,140)
Assets and Liabilities		
Nostro accounts	15,860,780	24,807,618
Deposits at other banks	-	6,609,090
Deposits received from other banks	-	(3,402,350)
Accrued interest receivables from group members	-	11,672
Accrued interest liabilities from group members	-	(3,176)

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 2022 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 2023 and 2022 are shown in the following table:

In thousand RSD	**2023**	**2022**
Gross salaries of key management	64,982	73,036
Fees to members of the Board of Directors and the Auditing Committee	10,464	10,481
Total	**75,446**	**83,517**

33. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the end of the reporting period that would require corrections or disclosures of the Bank's financial statements for 2023.

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

Belgrade, 23 March 2023

ABBREVIATIONS

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
CCF	Credit Conversion Factor
CRR	Capital Requirements Regulation
EAD	Exposure at Default
ECL	Expected Credit Loss
EIR	Effective interest rate
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX, Forex	Foreign Currency Exchange
IFRS	International Financial Reporting Standard
LGD	Loss Given Default
NBS	National Bank of Serbia
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
ROU asset	Right of use asset
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments’ cash flows represent SPPI

ANNUAL BUSINESS REPORT
BANK OF CHINA SRBIJA AD FOR 2023

March 2024

Content

DESCRIPTION OF BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF THE BANK

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

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

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

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

Founder and owner of 100% shares is Bank of China (CEE) Ltd. (previous name: Bank of China (Hungary), Close Ltd.). As of 8th June 2022, the Bank changed the owner to Bank of China (EUROPE) S.A., Luxemburg.

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 2023 (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 charges for foreign exchange transactions and providing agent services and services in documentary business in the amount of RSD 1,169,581 thousand (2022: RSD 930,504 thousand) and interest income in the amount of RSD 933,281 thousand (2022: RSD 367,502 thousand) deriving mainly from financial institiutions.

Financial position and business results (continued)

The total balance sheet amount as at 31 December 2023 is RSD 33,180,866 thousand (2022: RSD 54,135,171 thousand). During the year, there was an increase in property, plant and equipment of RSD 5,686 thousand (2022: RSD 8,982 thousand). Additions mainly relate to the lease of additional electronic equipment as well as renewing the lease of vehicles. During 2023, the lease agreement for business vehicles expired in amount of RSD 4,575 thousand (2022: RSD 2,806 thousand).
During the year, existing loans came to maturity and there were no new placements so currently the amount of funds placed through loans amounts to RSD 0 thousand (2022: RSD 604,523 thousand).

Total capital of the Bank as at 31.12.2023 is RSD 3,810,641 thousand (2022: RSD 2,504,133 thousand) and consists of the share capital in the amount paid by the shareholders on 28.12.2016, as well as the profit at the end of the current business year in the amount of RSD 1,306,508 and undistributed profit from previous years in the amount of RSD 659,053 thousand.

During the year 2023, the Bank issued performance guarantees in the amount of RSD 9,491,916 thousand (2022: RSD 6,511,416 thousand).The activity of issuing performance guarantees is increased. Collaterals for these guarantees are cash deposits of clients as well as counter-guarantees of members of the Bank of China Group.

The capital adequacy ratio as at 31 December 2023 was 42.85% (2022: 22.28%). The decrease in the indicator is conditioned by the larger funds that were in the bank's nostro accounts due to the increase in the deposit base of clients.

Financial position and business results (continued)

in RSD thousand

Income statement	2023	2021
Net interest income	**899,709**	**342,487**
Net fee and commission income	**1,157,349**	**920,858**
Net operating income	2,028,381	1,236,509
Operating expenses	(488,549)	(490,524)
PROFIT/(LOSS) BEFORE INCOME TAX	**1,539,832**	**745,985**
PROFIT/(LOSS) AFTER TAXES	**1,306,508**	**659,053**
Balance sheet		
Cash and balances with Central Bank	16,929,653	21,874,252
Receivables under derivatives	-	-
Loans and receivables from banks and other financial institutions	15,860,893	31,420,167
Loans and receivables from clients	10,779	604,523
Intangible assets	13,692	8,577
Property, plant and equipment	203,066	197,380
Current tax assets	143,327	-
Deferred tax assets	4,648	6,226
Other assets	14,808	24,046
TOTAL ASSETS	**33,180,866**	**54,135,171**
Liabilities under derivatives	-	-
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	2	3,405,526
Deposits and other liabilities due to customers	27,002,061	46,860,982
Provisions	51,949	31,834
Current tax liabilities	296,327	64,582
Deferred tax liabilities	-	-
Other liabilities	2,019,886	1,268,114
TOTAL LIABILITIES	**29,370,225**	**51,631,038**
TOTAL EQUITY	**3,810,641**	**2,504,133**
TOTAL LIABILITIES AND EQUITY	**54.135.171**	**54,135,171**
Capital adequacy ratio (%)	**42.85**	**22.28**
Average number of employees	**28**	**28**
Number of organizational units	**1**	**1**

Environmental protection investment

In the period from January 1, 2023 until December 31, 2023, the Bank did not have any investments in the field of environmental protection.

Significant event after the end of the business year

There were no significant events after the end of the reporting period that would require corrections or disclosures to the financial statements of the Bank for 2023.

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 2024 will be:

1. Achieving profitable operations,
2. Increasing market influence on the Serbian market,
3. Maintaining a stable, liquid and economical business operation,
4. Active management of non-performing loans,
5. Providing development opportunities for employment and new jobs.

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, 2023 to December 31, 2023, the Bank did not buy out its own shares.

Branches

As of December 31, 2023, the Bank did not have branches.

Financial instruments applied during the period

In the period from January 1, 2023 until December 31, 2023, 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

Regarding credit risk, the Bank classified all credit placements and placements related to deposits placed with Bank of China Group members at level 1, judging by the level of credit quality of these banks and the classification of clients, as well as the fact that these deposits do not exceed maturity of 3 months. Exposure to credit risk, as one of the basic risks, is measured using a standardized approach, taking into account that all credit risk exposures have an adequate collateral measured as an applicable technique for credit risk mitigation.
From off-balance sheet records, the bank issued performance guarantees based on counter-guarantees of members of the Bank of China Group or were covered by cash deposits of clients.

Financial risk exposure (continued)

Regarding foreign exchange risk, the Bank maintained the level of risk within the legal framework during the year. As at December 31, 2023, the foreign exchange risk level was 3,19% (2022: 0,96%).

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. The shift of the IRRBB from 200bpp to equity was - 0.068% at the end of the year (2022: 0.017%%), which represents a low exposure to this risk

Due to the aforementioned, the bank is exposed to financial risks as of December 31, 2023, but with the application of adequate control mechanisms and the use of risk mitigation techniques, the overall exposure is low.

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

Keqin Chen

Member of the Executive board

Slaviša Aleksić